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# EDITED TRANSCRIPT

STL.OL - Q2 2013 Statoil ASA Earnings Conference Call

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**OVERVIEW:**

STL.OL reported 2Q13 adjusted earnings of NOK38b.



## CORPORATE PARTICIPANTS

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

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

**Svein Skeie** *Statoil ASA - SVP, Performance Management & Risk*

## CONFERENCE CALL PARTICIPANTS

**Trond Omdal** *Arctic Securities - Analyst*

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

**Kelly Chen** *Nordea Markets - Analyst*

**Dag Nereng** *Handelsbanken - Analyst*

**Peter Hutton** *RBC - Analyst*

**Guy Baber** *Simmons - Analyst*

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

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

**Jeremy Aston** *Exane BNP Paribas - Analyst*

**Michael Alsford** *Citi - Analyst*

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

**Nitin Sharma** *JPMorgan - Analyst*

**Jon Rigby** *UBS - Analyst*

**Helge Andre Martinsen** *DnB Bank ASA - Analyst*

**Rahim Karim** *Barclays - Analyst*

**Jason Kenney** *Santander - Analyst*

## PRESENTATION

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### Operator

Good morning, ladies and gentlemen. Welcome to Statoil's second quarter's earnings presentation. I am Hilde Nafstad and I'm the Head of Investor Relations with Statoil. This morning at 7.00 am Statoil announced the results for the second quarter of 2013. We announced it through the wires and through Oslo Stock Exchange. The report and the presentations can, as usual, be downloaded from our website, statoil.com. I would ask you to kindly make special note of the information regarding forward-looking statements, which can be found at the last page.

We will start today with our CFO, Torgrim Reitan, who will go through the earnings and the outlook for the Company. As usual, the presentation will be followed by a Q&A session. And we will aim to end the conference at 2.30 CET. And please note that the questions can only be posed from the audience or through the telephone. You cannot pose questions directly from the Web. And you will find the dial-in numbers for posing questions on our website.

So now it's my privilege to introduce Statoil's Chief Financial Officer, Torgrim Reitan. Please, Torgrim.

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### Torgrim Reitan - Statoil ASA - CFO

Thank you, Hilde, and good afternoon and good morning to all of you in the US. In the second quarter Statoil delivered adjusted earnings of NOK38b. Strong performance, particularly from our international portfolio. Our financial results were been impacted by lower price and weak results from our marketing business.



Our operations in the quarter were solid. We produced as planned, ramping up new production on the NCS and producing record volumes outside Norway. At the same time we maintained stable underlying operating cost.

We have earlier said 2013 production will be lower than 2012. This is due to commercial decisions we have made to increase value creation, like divestments on the NCS and using our gas flexibility. Our production was broadly in line with what is needed for the full year. And please note that our divestments to Wintershall and the Ormen Lange re-determination will have full effect in the second half of the year.

This summer our activity level in terms of project execution is high. One example is the Gudrun project in the North Sea. This is a global project, with content from Thailand, Poland, Norway, Singapore and China. On Thursday the topside was lifted into place on the steel jacket, successfully completing one of the most important project milestones. Now we prepare for production start early next year, as planned, and we are on time and around NOK2b below cost. So we continue to deliver industrial progress in the quarter and in line with our strategy.

We sanctioned three new projects in the quarter and received government approvals for four major NCS developments. We decided to invest in a joint oil export solution for Edvard Grieg and Ivar Aasen, enabling future growth in the Utsira High.

The Shah Deniz consortium selected as Trans-Adriatic pipeline to efficiently bring the gas from phase two of Shah Deniz to the European market. And we took over operatorship in Eagle Ford, strengthening our position in the US onshore, now with operatorships in all our three premium plays.

We continue to prioritize robustness and value creation in our portfolio. In the quarter we announced a review of the Johan Castberg development in the Barents Sea due to updated project estimates and awaiting clarifications in the tax framework. And we also took down our US rig count further to optimize our capex. And we are achieving better efficiency in our drilling operations.

And, finally, we continue to deliver on our exploration strategy. In 2011 and 2012 Statoil was among the companies finding most and largest discoveries. The drillbit has delivered 550m barrels so far this year and this compares well with the success the last two years, where more than 1b barrels were discovered.

So we made five discoveries in the quarter and we secured attractive exploration acreage. In Norway we were awarded seven licenses in the twenty-second round. In Russia we signed new agreements in a joint venture with Rosneft. We will explore offshore Azerbaijan in the Caspian with SOCAR. And in Brazil we were awarded six licenses in the eleventh round.

In Tanzania we farmed into block six and in Australia we farmed into four offshore licenses in the south. So it's a long list. So by this we take important new steps to position Statoil for the future.

Our net income is down compared to second quarter last year. But, as you know, we booked significant gains in the second quarter last year after completing the divestment of our retail business and the NCS assets package to Centrica. We had actually around NOK16b in one-off effects in the same quarter last year.

Due to currency changes and increasing interest rates the net financial items contributed to a lower results for the quarter this year. But as always we make adjustments to our results to reflect the underlying business. This quarter our adjusted earnings decreased somewhat. This is mainly due to lower realized prices for liquids and gas and changes in the production mix.

We had lower earnings from marketing and trading that impacted the results. And I will come back to that in more detail on the segments. However, we produced at record level from our portfolio outside Norway and that contributes to strong international earnings.

As you know, depreciation normally fluctuates with production, but we have ramped up production and started new fields in the quarter. This quarter we increased production at Skarv with a depreciation cost of around NOK300 per barrel. And this will increase over time from that field. And on average the DD&A over the lifetime is typically half of the initial DD&A.

We also have lower production from older fields like Troll and Kvitebjørn, which have much lower depreciations, around NOK20 to NOK30 per barrel. So, as you can see, our DD&A is impacted by the production mix.

New projects have higher depreciation per barrel due to the booking profile that you get of SEC reserves and because new projects are more expensive than old ones. So this is a trend across the industry. So as we continue to put new production on-stream you should expect our depreciation per barrel to increase. In 2014 this effect is particularly clear as we start producing from large new fields, such as Gudrun, Goliat and Valemon on the NCS.



We maintained a stable underlying operating cost through the period. This is as expected and something I watch very closely. And I will come back to this in further detail later.

Adjusted after tax we generated NOK11.3b and this is on par with the second quarter last year. The lower tax rate is a result of relatively higher production from lower tax regimes outside Norway.

In the second quarter we produced as planned. We maintain a stable equity production and, as previously mentioned, we delivered record production from our projects outside Norway. And overall the production was in line with our expectations. But this is not more than what we need for the year as a whole.

As we have said, we expect to produce less this year compared to last year, mainly due to divestments, gas optimizations, the re-determination at Ormen Lange, reduced capacity at Troll and In Amenas. We also expect to carry out most of our turnarounds in the second half. And I will come back to this further when we talk about the outlook.

So the segments. From our Norwegian business we delivered adjusted earnings of NOK31.5b. Compared to the same quarter last year earnings were mainly affected by deliberately lower gas production, farm-down at Kvitebjørn and operational disruptions at Troll and Snøhvit. We largely offset the lateral decline on mature feeds by ramping up production, including four new fast-track projects. And, as mentioned, DD&A is increasing as expected in DPN.

From our operations outside Norway adjusted earnings were NOK5.9b. Our earnings have almost doubled from the same period last year and we produced more than one-third of our volumes outside Norway. And the cash flow per barrel from our international portfolio is at least as good as from our Norwegian production.

We increased our entitlement production by 11% by successfully ramping up Marcellus, Bakken and Eagle Ford in the US, Peregrino in Brazil and PSVM in Angola. Production was also positively impacted by operational improvements, in particular, in Azerbaijan. The increase was partly offset by natural decline at several fields and decreased production at In Amenas.

The results from Marketing, Processing and Renewable was NOK0.8b and I'm disappointed by that result. It is mainly due to losses on natural gas trading, weak trading in crude oil and products and lower refinery margins. In addition, the results were impacted by lower NCS volumes. But please also recall that the second quarter last year was a very good quarter for MPR across the board.

Our overall realized gas price is down, but that is due to higher share of US gas in the global mix. If you look at the European prices, the realized gas prices were on par with the prices realized through the winter season, and they are still strong. And, lastly, it's important to note that the value creation that comes from the flexibility in the gas machine is mostly reflected in our upstream results.

So we have stated earlier that the MPR result will be more volatile. Trading results are, by definition, volatile. And then we have farmed down our ownership share in Gassled, which affected our results by around NOK1b per quarter.

We have delivered a cash flow from underlying operations of NOK107b year to date. The change from last year is mainly due to lower prices and a lower production.

We made three tax payments in the first half of 2013 and these were based on the last year's earnings. Our NCS tax payments will be somewhat lower in the second half of the year. Then we paid our dividend of NOK22b in May, and NOK6.75 per share gives a solid direct yield to our shareholders.

And then we have invested NOK59b into our projects. And this is according to plan and in line with our estimate of organic gross capex of \$19b for the year as a whole.

Adjusted net debt to capital employed increased from 12.5% to 20.8% at end of the quarter. An increased debt rate is according to our expectations. However, we do expect a somewhat lower gearing at year end. The Wintershall transaction is expected to close at July 31 and that will bring in proceeds and tax payments will be lower in the second half of the year. So we continue to maintain a firm financial framework and a solid balance sheet.

As we discussed in the previous quarter, we are working constantly to improve our cost position further. In DPN we have maintained stable underlying total cost for six quarters in a row. This is despite having more fields in production and despite industry cost inflation.

In the second half we will produce less due to turnarounds. And I would like to remind you that in the short term our operating costs are, to a large extent, fixed. So you should expect a higher cost per barrel in the next quarter.

In MPR the improvement program we have put in place is paying off. Quarterly variations will naturally occur due to seasonal changes in volumes.



In the international segment we continue to deliver profitable growth. The growth in operational cost and SG&A is explained by higher royalties and transportation cost. Compared to last year diluent cost in Canada is now included in operating costs.

So the change since second quarter last year is related to, a) activity, more fields in production, higher transportation cost and royalties; and b) external factors such as increased CO2 tax on NCS. So the underlying operating cost is stable.

Then let's move to depreciations, and we see a increase in DPN this quarter. We are putting new fields on-stream with higher depreciation at the start of the life cycle, as we discussed earlier. Internationally, however, you will notice that we have improved the unit DD&A from the same period last year. In general DD&A will vary between quarters also in the future, but you should expect to see higher levels as new fields are phased in. As we move forward we will continue to improve our cost base and further strengthen our competitiveness.

Statoil has an attractive portfolio with more than 100 competitive projects. Through the summer huge operations are taking place. Over the last 12 months 32m workhours have been invested in projects where we are the operator. And I'm very impressed by the work done in the various project teams.

We use the summer season, now with calmer seas and less wind, to carry out the big lifts, to lay pipelines and cables and install subsea templates and risers. So you have seen the progress on Gudrun, which I mentioned earlier. We have also installed the first modules on Åsgard subsea compression and subsea templates for three fast-track projects.

On Valemon we are transporting new modules to South Korea, where the topsides are under construction as we speak. So we work restlessly with improvement agendas across the organization and we are delivering strong results.

On cost, we are delivering our projects at or below our estimates. We also forecast to reach all the main milestones for 2014. So these are strong results and evidence of our robust project execution capabilities.

Now let's talk about the outlook. As we have discussed earlier, our growth will not be linear. 2013 production will be lower than 2012 and this is due to commercial decisions we have made; divesting NCS assets; realizing significant gains; optimizing gas off-take for maximum value creation. As we have said previously, we now have more resources in our portfolio than we need to reach our 2020 production ambition.

We are prioritizing strongly among competitive investment opportunities. We are on track for our ambition to produce more than 2.5m barrels of oil in 2020. But when that is said, value creation is what we do, and we are of course not married to any production numbers.

Turning more specifically to our outlook, the Ormen Lange, the re-determination will reduce production by 20,000 barrels per day on an annual basis this year. This means around 40,000 barrels in the second half of the year. The divestment to Wintershall will also impact our production, 40,000 barrels per day from the closing, which is in a few days, July 31.

We have decided to move some of our maintenance work from the second quarter towards the second half. For the full year we expect our maintenance to reduce equity production by around 45,000 barrels per day. Most of this is at our liquid-producing fields. We expect the turnaround effect in the third quarter to be around 110,000 barrels per day. On Troll we have reduced capacity, limiting the flexibility. The situation at In Amenas will also affect output in 2013.

We will invest around \$19b in 2013, as expected. We are bringing new projects on-stream with low a breakeven price across the portfolio, delivering industry-leading rates of returns. We expect to receive the proceeds from Wintershall during the next quarter, leading to net cash flow to investments being less than the gross investments of \$19b.

We will explore for around \$3.5b, drilling around 50 wells in this year, and we will drill around 20 high-impact wells from 2013 to 2015. We have a high inventory of competitive projects and we will continuously optimize the timing around these.

I know you like to watch our wells, so let me give you some wells to watch. The Barents Sea campaign in the Johan Castberg area continues. We believe in further oil potential in this area. Iskryll is next out and operations have started on that well.

In East Canada, Harpoon West delivered an oil discovery. While it's too early to determine the resource potential at this time, it is encouraging for the area and for the Bay du Nord well that is currently being drilled. And we are preparing to start drilling on the Buzio well in Mozambique any time. So these are exciting times for our exploration team.



So, to round off, Statoil delivered strong operations in the quarter, but our financial results are impacted by lower prices for liquid and gas and a weak results from MPR. We produced as planned. We delivered record international production, contributing to strong international earnings and we maintain stable underlying operating cost.

Our activity level on the new field development is high and we execute our projects according to plan. We continued our exploration progress by accessing attractive exploration acreage and we are on track and maintain our guiding for 2013.

So, looking ahead, Statoil is well positioned to grow and create value. We continue to efficiently develop our project portfolio. We have a strong resource base and we are prioritizing strongly. And we will maintain a firm financial framework and we will continue to pay a predictable and a growing dividend to our shareholders. And we will do all of this while we are keeping our balance sheet solid.

So thank you very much for your attention. And then I'll leave the word to you, Hilde, to lead us through the Q&A session.

## QUESTION AND ANSWER

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

Thank you very much, Torgrim. And for the Q&A session Torgrim will be joined by Svein Skeie, who is Senior Vice President for Performance Management and Risk, and Ørjan Kvelvane, who is Senior Vice President for Accounting and Financial Compliance.

We'll start out with questions from the audience here in Oslo and then turn to the telephone audience. First I will ask the operator to please repeat the procedure for posing questions over the telephone. Please go ahead, operator.

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**Operator**

(Operator Instructions).

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

Thank you. So we'll start out with questions from the audience in Oslo. And I'll ask you to introduce yourselves. And please limit yourselves to one question. And also if you have forgotten how to use the microphone there's a card in front of it. You push the button and when it's red you can speak. Okay, Trond, you're first.

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**Trond Omdal - Arctic Securities - Analyst**

Trond Omdal, Arctic Securities. You say the Troll compressor is limiting. It's not limiting capacity, but it's limiting your flexibility short term. So can you -- when will that be finished? Will it be by Q1 or Q2 next year, or finally replace the new compressor?

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**Torgrim Reitan - Statoil ASA - CFO**

Thank you, Trond. So the Troll compressor -- the new Troll compressor will be in place in the second half in 2014. When that is said, we have capacity to produce more or less the production permit during the year, but there is less flexibility to profile the gas.

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**Trond Omdal - Arctic Securities - Analyst**

If I can just follow up on that specific, but the trading -- the poor result in the trading division, that was also impacted by trading losses.

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**Torgrim Reitan - Statoil ASA - CFO**



So then the trading organization they take care of the flexibility at Troll and they make money out of that flexibility. So since there has been less flexibility at Troll there are less profit in the trading organization this quarter.

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

Teodor?

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**Teodor Nilsen - Swedbank First - Analyst**

Teodor Nilsen, Swedbank First. Regarding the weak trading results that you have already touched upon, Torgrim, there's no doubt about that both this quarter and last quarter it was well below consensus estimates and also well below your historical margins in the MPR division. So I'm fully aware that the results will be volatile, but the two last quarters does it sign a step change in the profitability in this division? Should we expect lower earnings going forward?

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**Torgrim Reitan - Statoil ASA - CFO**

Okay. Thank you, Teodor. First a couple of points. Historically the profit from Gassled has been part of that segment, so that was NOK1b on a quarterly basis. So that provided both profitability and stability into that segment. That is divested now, so less result and more volatility.

We must be prepared for strong results and weak results from this segment. And last year was a record set of numbers. And this year so far it has been disappointing, disappointing numbers. On an overall level you should expect solid results from a business like this, but they are typically more able to make profit in a contango market than in a backwardated market on the oil side. On the gas side you will typically also be subject to the structures in the market as such.

So it is not a systematic change as we see it. It is two quarters in a row with disappointing results, but, then again, if you look in last year and so on a solid contribution for this -- from this area.

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**Teodor Nilsen - Swedbank First - Analyst**

Okay, so the main reason is then probably just the shape of the forward curve?

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**Torgrim Reitan - Statoil ASA - CFO**

On the trading side it is partly market structures. It is partly operational issues, like we touched upon on Troll that limits the opportunities on the gas side to earn money. It is partly related to Snøhvit being out. So there have been few cargos to arbitrate around, so the value generated from sending those cargos to high-price markets typically is in the MPR segment. And then there has been generally disappointing results from the trading on top of that.

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**Teodor Nilsen - Swedbank First - Analyst**

Thank you.

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

Do we have any further questions from Oslo? Yes, please go ahead.

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**Kelly Chen - Nordea Markets - Analyst**

Kelly from Nordea.

Hilde Nafstad - Statoil ASA - Head, IR



Teodor, turn off please.

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**Kelly Chen - Nordea Markets - Analyst**

Kelly from Nordea Markets. Regarding your record-breaking international production, I notice that most of the gain was from onshore US production and, within that, from Marcellus gas. Could you give us an indication of whether or not this growth is to be expected going forwards? And will the production remain at this level? And also perhaps a bit on the rig count in the region as well.

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**Torgrim Reitan - Statoil ASA - CFO**

Okay. All right. Thank you, Kelly. So production from Marcellus is increasing. It is increasing less than it would have done if we had kept up the rig count. We have taken it down from around 30 rigs to 14 rigs currently. So that's the state we're going for. But you should expect it to continue to grow, but at a lower pace than earlier.

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

Any further questions? Yes, please.

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**Dag Nereng - Handelsbanken - Analyst**

Dag Nereng, Handelsbanken. Can you also comment on the Eagle Ford and Bakken, because Bakken has 30% growth year over year and Eagle Ford 140%? Quite impressive. What do you expect forward?

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**Torgrim Reitan - Statoil ASA - CFO**

So the rig count currently at Bakken is 10 rigs we are running there. So we have taken down the rig counts also there, to run a number of rigs where we feel that we really can extract the learning across the rigs as we develop drilling more efficiently and technology and fracking and all of that. So that's a typical rig count to plan for going forward there. So I can't give specific growth profile out of Bakken and Eagle Ford. But you have to correct me Svein, but a less or a lower growth rate than we have seen over the last year I think is fair to assume.

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

Okay. Do we have any further questions from Oslo? If not, we'll turn to our telephone audience. And the first question comes from Peter Hutton with RBC. Please go ahead, Peter.

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**Peter Hutton - RBC - Analyst**

Hi, thanks for taking the question. A confirmation on the Bakken there. You said you're operating 10. What was that before? I think in the first quarter you said that in the first quarter you produced 47,000 barrels a day and over the rest of the year it would be more like 40,000 to 45,000. Is that still correct?

And the second part of the first question is on the cash flow and capex. I know that there were two payments out for tax, but even adjusting for that the second-quarter underlying cash flow generation was just about NOK8b, which is compared to NOK30b a year ago. Is there something in terms of cash absorption that we're not seeing coming through on that one? I'm struggling to get those two to tie in particularly effectively.

And then on -- also on cash, you were able to confirm the capex guidance of \$19b for this year. Are you also able to confirm the \$21b average '13 to '16 as well at this stage? Thank you.

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**Torgrim Reitan - Statoil ASA - CFO**



Okay. Thank you, Peter. That was a -- that was one long question. So let's see here. On Bakken, so we have taken down the rig count from around 15 rigs last year to 10 currently. When it comes to -- maybe you can address the cash flow question, the details there, Svein.

On the investments, yes, \$19b for this year. We are running our investment portfolio without delays and overruns, so it's very stable the forecasts that we currently run. The \$21b in investments is also intact as we see it. The \$21b is consistent with delivering 2.5m barrels per day in 2020.

Of course, our portfolio has the potential to produce well beyond that, so the -- to get to \$21b a hard prioritization among good investment opportunities will happen. But \$21b is what we plan for.

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**Peter Hutton - RBC - Analyst**

Excellent, thank you.

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**Svein Skeie - Statoil ASA - SVP, Performance Management & Risk**

Regarding the cash flow for 2013, in the first half of the year, as you said, it has been lower. It is mainly then related to that we are paying then taxes based on the results from last year, from the Norwegian Continental Shelf, where we both had -- where we had higher production. So in the second half of the year we expect that the taxes will be somewhat lower.

In addition on the cash flow side the results from MPR is affecting the cash flow the first half. And on the capex side, as Torgrim also said in his presentation, is that we should get the proceeds then from the Wintershall transaction, which is coming now by end of this month.

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**Peter Hutton - RBC - Analyst**

So generally saving more cash second half?

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**Torgrim Reitan - Statoil ASA - CFO**

Peter, could you repeat that? It was hard to hear you?

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**Peter Hutton - RBC - Analyst**

So generally saving issues more cash expected in the second half?

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**Svein Skeie - Statoil ASA - SVP, Performance Management & Risk**

Yes. We will especially have effect. We will get the effect of the taxes for the Norwegian assets then affecting the production level for this year, and not then the level from last year.

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**Peter Hutton - RBC - Analyst**

Okay, thank you.

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

Okay, thank you. The next question goes to Guy Baber from Simmons & Company. Please go ahead, Guy.

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**Guy Baber - Simmons - Analyst**



Hi, thanks for taking my question. I had a question about the Eagle Ford. Production ticked up nicely there for the quarter. And now that you've taken over operatorship in the eastern part of the play I was just wondering if you could address how comfortable you are with the size of your position there. It's obviously smaller relative to some your other plays and it would appear there's an opportunity to increase your exposure there.

And then, more broadly, are you still looking to add to your NAM onshore portfolio acreage position?

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**Torgrim Reitan - Statoil ASA - CFO**

Okay, thank you. So we have taken on the operatorships so that is going very well. Rig, the efficiency in the drilling operations is improving and the cost per well is improving, so that's good to see. So this is a rather small asset in our portfolio. It is a good asset and generally we are fine with it.

Across the unconventional specter it is -- we positioned us early in both Eagle Ford, Bakken and Marcellus and we are pretty comfortable with the positions that we have. When that is said, of course, if the right opportunity is there and the price is great, then of course we will take a look at things. But generally we are fine with it and happy with the portfolio that we have.

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

Thank you. The next question comes from Brandon Mei from Tudor, Pickering, Holt. Please go ahead, Brandon.

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

Hi, on the marketing and trading results you touched upon lower results due to operational issues on the upstream volumes. Can you give some color on dollar impact there due to the lower volumes?

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**Torgrim Reitan - Statoil ASA - CFO**

Okay, Brandon. It was the impact of lower volumes on the trading results. It is on the MPR side the specific numbers on the volumes it is contributing to our lower results, but you can recall how much it was?

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**Svein Skeie - Statoil ASA - SVP, Performance Management & Risk**

I think if we look at the entitlement volumes from NCS last year it was around 10-ish. This year it's approximately 9-ish. So we have less there. And then of course the price will also affect it. But it's around from 10-ish down to 9-ish in the volumes.

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

Thank you. Our next question comes from Brendan Warn from Jefferies. Please go ahead, Brendan.

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**Brendan Warn - Jefferies International - Analyst**

Yes, thanks, Hilde. And thanks, Torgrim, for taking our question. Look, just one question, just can you give us a bit of an update on your gas commercialization negotiations in Tanzania? Just perhaps a bit of an outline on steps forward in terms of appraisal, when you believe you're at threshold volumetric. And just can you remind us of timeline to something like a financial investment decision, please?

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**Torgrim Reitan - Statoil ASA - CFO**



Okay, thank you, Brendan. So good progress in Tanzania, great discoveries, significant volumes and sufficient volumes to move forwards. And it makes us more confident of our commercial decision. We noticed quite a bit of interest from buyers towards these assets, so that is solid. We work together with BG to establish location for the onshore site. And that is typically something that we will share.

And then we have more work to be done in the license and more wells to be drilled. And LNG is a scale game, so the more volumes the better profitability. So the first priority is, of course, to maximize the volumes in place and then move forward towards the decision point. I'm not prepared to give a date for that, but the progress is good and we are working closely with Tanzanian authorities and our partners.

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**Brendan Warn - Jefferies International - Analyst**

Okay. Thanks for that, Torgrim.

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

Thank you, Brendan. The next question comes from Jeremy Aston from Exane. Please go ahead, Jeremy.

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**Jeremy Aston - Exane BNP Paribas - Analyst**

Hi there, thanks for taking my questions. So a couple of exploration questions. Firstly, Cachalote was dry. Should Buzio also be dry will you throw in the towel in Mozambique?

And, secondly, Det Norske, your partners, have just announced that the primary target at Cliffhanger North is dry. Could you possibly describe what you found in the secondary target? Thank you.

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**Torgrim Reitan - Statoil ASA - CFO**

Okay. Yes, so Cachalote the status is known, so we are moving Discoverer Americas. We have moved Discoverer Americas to the other well and that is being worked. So beyond that there are more opportunities and they are separate in modeling and so on. So we still have interest in that area.

When it comes to Cliffhanger North, we will finalize the well, we will conclude with our partners and then we will communicate around that the -- well coordinated with the oil directorate like we do on all the wells on the Norwegian Continental Shelf.

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**Jeremy Aston - Exane BNP Paribas - Analyst**

Okay, understood. Thank you.

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

Thank you. The next question comes from Michael Alsford with Citi. Please go ahead, Michael.

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**Michael Alsford - Citi - Analyst**

Thanks, Hilde. Good afternoon. I've got a question a bit on the gas market in Europe. I know we've talked a little bit around the trading result that was weak in the quarter, but could you perhaps talk a little bit more broadly about what you're seeing in terms of your key markets for demand for gas and how the supply outlook is looking currently? Thank you.

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**Torgrim Reitan - Statoil ASA - CFO**



Okay, thank you, Michael. So gas markets in Europe is strong. We are seeing summer prices above 65pence per therm, so in a historical perspective it's great prices.

So the market is characterized by LNG going other places. So that is firming up the market. We see a growing demand for gas over the years, not a big growth, but a one to one and a half percentage growth in that market. We see significant decline in indigenous production and we see that more gas needs to come to the market. So that is one part of the equation.

The other one is politicians and the appetite for gas as the long-term fuel for Europe. So we see a positive development also in that respect. There is maybe one concern, and that is in Germany, where we miss clear statements from politicians that gas is better than coal. So we all know the answer to that. So we're just waiting for clarifications.

Then the things we have done on our long-term gas contracts, that has proved very well, carving back the flexibility, enabling us to create additional value and expand our presence in the European gas market. So, so far so good, and impressingly-strong prices in Europe.

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**Michael Alford - Citi - Analyst**

Okay, thank you. Maybe just one comment on inventories. Are you seeing increased demand because inventories are generally low? Or is that potentially just like real demand is -- short-term demand is high currently?

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**Torgrim Reitan - Statoil ASA - CFO**

Could you repeat that? I didn't get that fully.

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**Michael Alford - Citi - Analyst**

Yes, just a question on where you see inventories in Europe. Is it simply people refilling low inventories, or are you actually seeing underlying demand strong within Europe?

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**Torgrim Reitan - Statoil ASA - CFO**

There has been -- the underlying demand has come down since 2008, but we expect that to turn in a year or two to a modest growth in this area.

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**Michael Alford - Citi - Analyst**

Okay. Thank you very much.

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

Thank you. Next in line is John Olaisen with ABG Sundal. Please go ahead, John.

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

Good afternoon, a couple of questions. First, on the payable tax this quarter, as already discussed, was a lot higher than the P&L tax. Just wondered for the whole year should we expect the payable tax to be pretty much the same as the P&L tax? Or should it be higher or lower? And we -- any arguments on that?

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**Torgrim Reitan - Statoil ASA - CFO**

Okay, John, thank you. So, Svein, please?



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**Svein Skeie - Statoil ASA - SVP, Performance Management & Risk**

As you said, we paid the taxes on the Norwegian Continental Shelf now based on what we saw from the 2012. And then we paid half of it in the second half of last year and then we paid the other part of it the first part of this year.

For the second half there will be then some expectations to what kind of results we are seeing for the remaining part of the year and then calculation -- calculating then the net taxes payable as we see it. That will be based on the results as well as the capital expenditure. Based on what we see now, we see that it will be lower, but I will not comment on if it be on the exact same level as the profit from the results.

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**Torggrim Reitan - Statoil ASA - CFO**

And then with large investments on the NCS and with the depreciations that we do there, they will be typically deferred taxes. That contributes to build deferred taxes in that equation.

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

Okay. Net for the year will it be -- really all be reverted in the second half, or just for the magnitude, because it was a huge payable tax charge this quarter?

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**Torggrim Reitan - Statoil ASA - CFO**

Yes, this quarter. So I think we're not ready to give you the exact numbers on the -- for the fall, but it will be lower than the first half of the year.

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

Okay. Then to the realized oil price in Norway. There was a record high discounted rent of almost \$9. Any reason why it keeps increasing? Any particular fields where they --

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

Jon, we are hearing you very poorly, can you please speak up.

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

Can you hear me?

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

Yes.

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

Can you hear me now? Maybe that's better.

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

Yes, better.



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

On the discount to the Brent in Norway it was at a record high of almost \$9. Are there any particular fields where the oil is trading at a bigger discount to Brent than it has been in the past? Or any particular field contributing to a lower realized oil price?

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**Torggrim Reitan - Statoil ASA - CFO**

The main explanation to that is NGL prices and the share of NGL into the liquid production.

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

All right. And then, finally from my side, the natural gas realized gas price. You mention that the -- it was due to a higher portion of US gas production. But that's not -- if I just look at the numbers that you provide it seems like the US gas production contributed with 5%, 5.0% of Q2 gas production, while there was 5.1% of Q1 production.

So actually the US production was -- in percentage terms was slightly lower in Q2 than in Q1. So that seem -- doesn't seem to explain the dip in your realized gas price. Because you mention that as a reason why the natural gas price was down.

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**Torggrim Reitan - Statoil ASA - CFO**

Well, when we compare second quarter with second quarter last year we see that the increased share of US gas is what changes the overall for the Company.

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

Sure year on year, but you mention Q1.

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**Torggrim Reitan - Statoil ASA - CFO**

And then on -- when you look at the European prices for this quarter it is on par with what we saw across fourth-quartile and first-quartile gas prices.

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

Sure, but you mention that the prices in Q2 in Europe were flat compared to -- with the prices in Q1.

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

Excuse me, I think we will have to move on to the next question now to allow time for everybody, John. So -- but please feel free to contact Investor Relations for further clarifications. Next question comes from Nitin Sharma with JPMorgan.

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**Nitin Sharma - JPMorgan - Analyst**

Afternoon, one short question. It's around the medium-term free cash flow profile. So you're guiding to average organic capex 2013-2016 of \$21b. Could you also please comment on the free cash flow profile of the Company over the same period, say, assuming a \$100 oil price scenario, or maybe under your own planning scenario, please?

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**Torggrim Reitan - Statoil ASA - CFO**



Okay, thank you, Nitin. So with the free cash flow development over the year, if you recall our presentation at the fourth quarter we did in February, we laid out numbers for investments, for operating cash flow and also an oil price reference price, a price which we use calculation purposes, which is at that point and then \$10 per barrel. So it was \$19b in investments and then it was 20 -- was it \$20b in -- of cash flow from operations? \$20b --

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**Svein Skeie - Statoil ASA - SVP, Performance Management & Risk**

In '13.

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**Torggrim Reitan - Statoil ASA - CFO**

Yes, in '13, yes. And then you have the dividend. So that is more or less on the same level. When it comes to cash flow from operations the re-determination of Ormen Lange and the MPR results is impacting the free cash flow for the year negatively.

So when it comes to oil price assumptions the sensitivities that we show in the MD&A is valid. An oil price of \$10 -- change of \$10 per barrel will reduce after tax NOK8b as such, so that's metrics that can be used to calculate the various price effects.

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**Nitin Sharma - JPMorgan - Analyst**

Thank you.

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

The next in line is Jon Rigby with UBS. Please go ahead, Jon.

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**Jon Rigby - UBS - Analyst**

Thanks, Hilde. Can I just ask a question on the Bakken and then just a quick follow-up on capex? So on the Bakken, the profile that looked impressive year over year that I think has been noted, it's flat-lined 4Q, 1Q, 2Q, and you talk about the reduction in wells. But is there anything else -- to old rigs. Is there anything else impacting it, like weather through the winter period, which we would expect to unwind in the second half of the year? Or is the production rate that we're seeing now consistent with the well count that you talked about?

Also, on the Bakken, are there any implications following the crash -- the rail crash riling out crude for your operations? And can you remind me how much you do rail out?

And then just to come back to you on capex -- sorry, it's a bit extended. Is -- you did talk about choice and efficiency around choice of projects because of the success you've had. So might we expect that you could look at that \$21b and maybe the positive impact is that that can come down as you divert capex into more efficient projects? Thank you.

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**Torggrim Reitan - Statoil ASA - CFO**

Okay. So let's just take the capex first. So the capex in Bakken is -- spending there is consistent with the number of rigs that we are running. We see more efficient operations, so we get more out -- more work out of the rigs that we run, so that's good. Bakken is performing well and production is ramping up, and all of that is good.

When it comes to the rail crash -- the tragic rail crash, we are unfamiliar with that -- with the company. There might be some changes into regulations when it comes to riling in US and Canada, so we will follow that very closely. And I'm sure there will be an investigation and learning to be shared with other companies as well.

When that is said, the rail cars that we are running are new, 1,040 car rails. They are built on a different standard than the ones involved in the crash. It's a bit like double hull like we have in ships that we also have in the rail cars. So we follow the latest standards in this respect.

And then you had one last question, Jon, and that was related to prioritization. Can you repeat that?



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**Jon Rigby - UBS - Analyst**

So it's to do with investment. You talked about the \$21b being consistent with your production aspirations, but you've also then name checked the fact that you've clearly had success developing and identifying better and better projects over the last couple of years. And I just wondered will that translate ultimately to a lower CapEx bill for the same production aspiration, or do you think \$21b remains about right?

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**Torgrim Reitan - Statoil ASA - CFO**

So with the \$21b I think is -- what we're prepared to guide for currently is \$21b a year and 2.5m barrels per day in 2020, so -- but all the prioritization being done, meaning that the quality of the growth will improve when you pick the best projects.

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**Jon Rigby - UBS - Analyst**

Right, but the quality of growth doesn't improve through the capex intensity. It's from the production -- or value of the production.

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**Torgrim Reitan - Statoil ASA - CFO**

We're not ready to make any adjustment on that basis, but it's a very interesting question.

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**Jon Rigby - UBS - Analyst**

Okay, thanks. Thanks, Torgrim.

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

Thank you, Jon. The next question comes from Helge Andre Martinsen with DnB. Please go ahead, Helge.

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**Helge Andre Martinsen - DnB Bank ASA - Analyst**

Good afternoon, two questions, if I may. Your DD&A cost on a unit basis is up 28% year over year in Q2 and 22% in the first half of the year. And you want a further increase in DD&A cost for 2014. Could you please indicate the growth rate for the DD&A unit cost for 2014? Are we talking about 20% to 30% on a year-over-year basis?

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**Torgrim Reitan - Statoil ASA - CFO**

Okay, thank you, Helge. So the growth rate of -- a growth rate of 21% or 28% going forward is not what you should expect in the longer term. If you take a few years ahead that's, of course, too high. But you will see some -- not a linear development necessarily.

And you know I was very explicit on 2014, where we have a few significant new projects coming on on the NCS that will typically contribute with the same type of issues -- DD&A issues as the Skarv has this year. So it's just to give some highlight on that. But a growth rate in that magnitude that you mention on a longer-term perspective it's not a right number.

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**Helge Andre Martinsen - DnB Bank ASA - Analyst**

But for 2014?



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

No, we're not prepared to give a specific number on the growth rate on DD&A for 2014. So -- yes.

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**Helge Andre Martinsen** - *DnB Bank ASA - Analyst*

Okay, thanks. One more question, if I may, on the realized oil prices for the international business. It dropped relative to Brent compared to Q1, despite that we are seeing a significant strengthening of the WTI and Bakken prices relative to Brent. And we've also seen improving West African crude differentials. So could you please elaborate a bit on what is driving your international liquids price relative to Brent?

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

Okay, thank you. So two main drivers there. Peregrino is at a discount to Brent, so there's a higher production from Peregrino this quarter. The second one is related to WTI. So we're back in production. We are railing that out of the Williston area. So it has not been priced as a WTI up to now, at least to a less extent, so that doesn't really make a big difference. So the main explanation is Peregrino production, yes.

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**Svein Skeie** - *Statoil ASA - SVP, Performance Management & Risk*

Peregrino and our onshore US.

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

Yes, and onshore US production as well. We have liquids production out of Marcellus. That has increased significantly and that is at a significant discount to both Brent and WTI.

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**Helge Andre Martinsen** - *DnB Bank ASA - Analyst*

But it will follow the WTI price, though?

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

The liquids out of Marcellus is NGLs and ethanes, so that will follow that market more than WTI.

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**Helge Andre Martinsen** - *DnB Bank ASA - Analyst*

Okay, thanks.

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

Then we have Rahim Karim with Barclays. Please go ahead, Rahim.

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

Hi, good afternoon. Just one clarification, please, and then a question on gas markets. The clarification was, Torgrim, you talked about gearing being lower at the end of the year than where we are today. Can you just reconfirm the guidance you gave 4Q of around 15% for year end?



And then the question on gas markets was, I just -- you talked about the success of your historic gas contract renegotiations. I was hoping you could just give us an update on your current renegotiations. Thank you.

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**Torgrim Reitan - Statoil ASA - CFO**

Okay. Thank you, Rahim. So at the fourth quarter we said around 15% net debt at year end and then we used the forward prices at that point in time for calculation purposes and that was \$110 per barrel. So prices so far this year is lower, so that will have an impact on the gearing. Apart from that, MPR results is -- will also impact the free cash flow from the year earlier. So on the lower -- on lower prices and with those effects you should expect it to be north of -- a bit north of 15% at year end.

Then on gas markets -- gas contracts, so we have successfully concluded a significant part of the gas renegotiations. There are a few outstanding. So those are progressing well. The discussions that we have with our counterparts I can -- I think we can characterize them as colorful, but that's the way of negotiations. But progressing well. We are offering more spot indexation into the long-term contracts, but in return flexibility goes away from the contract portfolio, and that flexibility is a good platform to create uplift value creation.

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

We'll take --

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**Rahim Karim - Barclays - Analyst**

Great, thank you. And would you say you're on track to finish those negotiations by the end of 2013?

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**Torgrim Reitan - Statoil ASA - CFO**

It is progressing well. I will not be surprised if there are a few outstanding by year end either, so -- but that's the nature of renegotiations.

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**Rahim Karim - Barclays - Analyst**

Okay. That's very helpful.

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

Thank you, Rahim. We'll take one last question from Jason Kenney with Santander. Please go ahead, Jason.

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**Jason Kenney - Santander - Analyst**

Hi, there. Thanks for taking my question. So I'm just curious about the Bloomberg line this morning stating that Statoil management is not focused on the Company's share price currently. And I can appreciate the focus on operational delivery and the also intense effort to deliver value. But I was just wondering if there was something you could do to highlight the inherent deep value in your business, possibly by relating the share price to the underlying NAV.

I know you tried to do that with the divestment analogy at the recent Capital Markets event. But on the face of it self-liquidation could be value adding in this respect. And I just wanted to know how management might begin to think about the share price in the future once you get through this intense capital commitment and operational focus at this time?

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**Torgrim Reitan - Statoil ASA - CFO**

Okay, thank you. I'm a bit puzzled by that Bloomberg says that management is not occupied with the share price, because we definitively are. I'm not sure where that comment's come from.



The way we think about our business is that we need to be very good at what we do. That's the best recipe. We need to be good at exploration, we need to have the best projects, we need to be good at developing those and strong at operating those and then selling oil and gas. If you're good at all of that, that's a recipe for a strong share price. And if you do that within a firm financial framework, which is a solid balance sheet, strong gearing and strict prioritization, so I think that's a good medicine for long-term value creation for our shareholders.

So to me it's very important to balance all of this well to what speed we actually push the accelerator. And, as we have discussed, we have the potential to grow harder. We have the potential to realize even more of our projects. But it's very important for us to find the right pressure on the accelerator. Balancing, picking the best projects, seeing to that we have the execution control and capability in place, and also the financial framework that we deliver that in a sound manner.

So it was a big question, but I can assure you very much that, as management, we are very occupied by share price and what we are doing compared to our competitors.

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**Jason Kenney - Santander - Analyst**

Okay, that's what I wanted to hear. Thanks.

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

Thank you very much. That will conclude the Q&A session for today. And today's presentation and Q&A session can, as usual, be replayed from our website in a few days, and transcripts will also be available. If you have any further questions, please direct it to us in Investor Relations and we'll be happy to help you. Thank you all very much for participating and have a good afternoon.

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