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STL.OL - Q4 2014 Statoil ASA Earnings Call and Capital Markets Update

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PRESENTATION

Peter Hutton, Statoil ASA - SVP and Head of Investor Relations

Ladies and gentlemen I am very pleased to welcome you to Statoil's Capital Markets Day live in London and to those joining on the phone and on the internet. My name is Peter Hutton, Head of Investor Relations. We have three formal presentations today between 20 and 25 minutes followed by 45 minutes of questions and answers both from here and on the telephone. To open up, we have Eldar Sætre, the CEO of Statoil, a position in which I am delighted to say he was confirmed earlier this week. He will be followed by Torgrim Reitan, the CFO and Margareth Ovrum, Head of Technology, Projects and Drilling. But first off, we have as in Statoil

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a safety moment which I would like to read out. If there is an emergency situation, if an emergency situation should occur while we are here, the evacuation signal is voice to the system announcement. Please use the fire exit within the venue and follow the signs and exit on ground level. With that being said we have no plans for any fire drills, so if there is rush to the doors perhaps it are people running out to buy the stock. First of all, I would like to welcome Eldar to start us on the first presentation this morning.

Eldar Saetre - Statoil ASA - President and CEO

Thank you Peter and god morning ladies and gentlemen. It is really good to see you all, I have to say. Times of uncertainty require leaders that see opportunities and can make adjustments whenever that is the right thing to do. And as you saw from the message that we sent out on Wednesday, I have demonstrated precisely these characteristics. I seized the opportunity when it was presented to me. So today I am really pleased hosting you as the new CEO of Statoil. In this new position, I see no need to suggest any changes to Statoil's overall strategy. It has served us well and is wisely designed for the future. However, within this strategy, I have highlighted three focus areas. The Norwegian Continental Shelf remains the backbone of our activities. It is a highly attractive basin where we will seek to deepen and not at least prolong our position's based on solid and very distinctive competitiveness, as such.

Our international portfolio and operations remain key to our long-term development. We will continue to invest into our international activities where we can capitalize on our competence, building materiality, and, obviously, profitability.

And we also must adapt to remain competitive in the low carbon future. I see this as a truly business-driven approach, and I will revert to that later in my presentation as well.

Before I start my presentation, I would like to offer some very few comments on the current market environment and without pretending to have a crystal ball of any higher quality than any of you might have.

A downturn should not, in fact, have come as a surprise to anyone as the physical imbalances in the market were gradually building up, and they were quite visible. At least, this was no surprise to us. But I have to admit that the force of the market reaction was somewhat surprising.

In our view, the long-term fundamentals of our commodities are strong. But no one can be certain as to how long the low price environment will last, and we expect to see quite significant volatility for quite some time. So we are, therefore, prepared for low prices for an extend period of time.

At the same time, we are building resilience, and working even harder to strengthen our competitiveness. This will leave us even better positioned for the rebound, whenever that is going to take place.

This is also why seizing the opportunity, it's not me seizing the CEO opportunity, Statoil seizing the opportunity, in the current environment is today's headline.

Last year, we presented our plan, which we called execute for improved value creation. Today, Margaret, Torgrim, and myself will present how we have delivered on this plan, and how we will deliver, going forward.

Firstly, we will continue to provide high-value growth. We plan to increase our production by around 2% annually to 2016 from ramp ups and new capacity that is put in place. This requires lower CapEx reduced through even stricter prioritization.

Our investment program for 2015 is reduced by \$2 billion compared to last year's guiding. And beyond 2015, we have material flexibility in our portfolio, enabling us to navigate through a volatile commodity environment.

We will balance our spending, so that free cash flow covers dividend, through a volatile commodity environment within the next couple of years across a broad set of scenarios.

Secondly, we will continue to increase our efficiency. We will deliver \$5 billion in cash improvements compared to 2013. This will come from a step up in our efficiency program of 30%; a reduction of CapEx and exploration spending compared to previous plans; and improved operational efficiency, building on the achievements we have made during last year.

And finally, we are reiterating our commitment to provide competitive capital distribution to our shareholders.



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The proposed dividend for the fourth quarter is unchanged from the previous three quarters of NOK1.80 per share, implying a full-year dividend of NOK7.20 per share. And our commitment towards our shareholders remains firm. The intention is to maintain a flat level for the first three quarters of 2015.

Let me expand on our approach to long-term value creation. Basically, this is about being prepared to handle volatility. That is why we initiated comprehensive measures to improve our competitiveness approximately two years back. Since then, portfolio optimization, reduced CapEx, and increased operational efficiency have strengthened Statoil's financial robustness.

Furthermore, we are seizing the opportunity of the current downturn to strengthen our competitiveness even further. Through the measures we have taken, and by stepping up our efficiency program, we will navigate through a low-price environment, while making us even more fit for future opportunities and value creation.

And finally, we are prepared for long-term value creation by maintaining an uncompromising focus on safe and efficient operations; increasing the robustness of our individual projects ahead of us, and the portfolio; and continuing to invest in highly profitable projects, like Johan Sverdrup.

Earlier today, I presented our quarterly and full-year results, and I will leave it to Torgrim to go into more details on this. But let me briefly comment on a few highlights.

Our HSE results continue to improve, following a trend that we have seen for quite a few years now.

Production is up 4% year on year.

The adjusted earnings were NOK136 billion, which is solid, reflecting the current market environment.

Our CapEx level was in line with our guiding, and our debt ratio at year-end was at 20%.

Finally, important for the longer term, the organic reserve replacement rate was at almost 100%. And we also continued to deliver strong performance on exploration.

So, in sum, we have delivered on our guiding. And I would characterize 2014 as a year of strong underlying performance, however, we see some challenges in our international portfolio. The fourth quarter result is negative, and we forcefully address the profitability within this area, in particular related to the US onshore business.

For the year as a whole, our international business segment delivered adjusted earnings of almost NOK14 billion. And the cash flow from operations from our offshore international business was actually in line with the same cash flow that we see from the Norwegian Continental Shelf.

To manage a business through good times, and bad times, we need a consistent financial framework, defining our room to maneuver; and for me, there are four cornerstones in this framework.

Future value creation is depending on our capacity to invest in profitable projects. The commitment to our shareholders is essential, offering a competitive direct return through the cycle.

We also need to secure a positive net cash flow over time; and today, we demonstrate our capacity to do that within a wide range of oil price scenarios.

And finally, we need to safeguard our financial resilience. And we will maintain a debt ratio below 30%, even in a \$60 oil price scenario.

Our efficiency program is progressing well. So far, it has resulted in a wide range of improvements, realizing gains of approximately \$600 million.

We have reduced modification spending quite significantly. We have improved our offshore well delivery time. We are making similar type of progress in relation to our US onshore business, on drilling, and completions. And we are running the Company with approximately 8% lower workforce today than we did one year ago.

Today, we announce a step up in our improvement program, increasing the target from \$1.3 billion to \$1.7 billion by 2016. These improvements are not including last year's achievements on production efficiency.

This is not a program of simple cost cutting. We are targeting the underlying efficiency challenges of our industry. We simplify; we standardize; and we work smarter together. Margareth will address more details on this in her presentation.

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The teams operating our facilities have reduced Statoil's unplanned losses last year by an impressive 5 percentage points, and that is compared to the year before. That equals 50,000 barrels for every day of the year, on average; and, I can assure you, that is highly profitable barrels as well. As a result of these efforts, and new production coming onstream, we expect to increase production by around 2% towards 2016, and 3% from 2016 to 2018.

Given the challenging environment for our upstream business, it is worth reflecting on the opportunities within marketing and trading, and this comment has nothing to do with the fact that that was my previous job.

In North America, we have secured access to transport capacity to reach premium markets.

In Europe, our resources have access to flexible infrastructure, including production flexibility from upstream fields, like Troll and Oseberg. This gives us an opportunity to really reach premium markets at any point in time.

In recent years, we have significantly -- have seen significant changes in the European gas markets. Statoil has, in fact, been a front runner in this transformation from oil indexation to gas market pricing.

The timing of the renegotiations were good. Especially, in 2012 and 2013 we saw very good prices for gas in Europe. In sum, this has taken down our oil price exposure; and, in fact, also hedging us somewhat in the current low oil price environment.

We have a strong portfolio of projects in execution, and we will continue to invest in high-quality projects. Soon, we will submit the PDO for Johan Sverdrup, a truly world-class project by any means, to the Norwegian authorities. And even in the current environment, this is a highly profitable project. It is among the five largest projects on the Norwegian Continental Shelf, ever. And Statoil is operator with 40% ownership.

At plateau, it will produce more than 25% of the Norwegian combined oil and gas production. And once in production, Johan Sverdrup will continue to produce for 50 years. It will outlive, in fact, many of us; at least some of us, I should say, to be a little bit on the cautious side here.

The project is very profitable with a break-even price below \$40 per barrel. And it will be a true pleasure, and I will do that personally, to hand over the PDO to the Norwegian Government, and the Minister.

In recent years, we have achieved industry-leading exploration results. And also, in 2014 we were among the leading performers. Last year, we deepened our positions in Norway, in the UK, in Brazil, as well as Gulf of Mexico; and we strengthened our portfolio with new acreage in Algeria, Australia, Colombia, New Zealand, and, in fact, Myanmar as well.

Our ambition is to remain a leading global exploration company. And Statoil will, therefore, sustain our exploration efforts, although at the somewhat lower level. This year, we plan to spend around \$3.2 billion on exploration.

The oil and gas industry will gradually face stricter regulations, related to climate change, and our business. In Statoil, we see three dominating industry challenges that we need to respond to, and for simplicity we refer to this as the three Cs. And the first one should be well-known to you, that is competitiveness, and you'll hear a lot today about how we are addressing that extensively.

Secondly, we must be part of the solution, in fact, to maybe the most pressing challenge of our times. The world needs more energy, while at the same time tackling the climate challenge. Statoil is already an industry leader in terms of carbon efficient oil and gas production, and we intend to keep it that way.

And thirdly, a trusted company must be in sync with society, local societies and the general public at large. And we truly believe that our strong track record in this area creates a competitive advantage, both in the short term, but increasingly so in the longer term.

So, our industry must undergo a lot of change. Statoil has the competency, the capacity, and the leadership capabilities necessary to actually meet whatever challenges that lies ahead of us, and I know this Company pretty well.

So, with this in mind, I would like to leave you with a few key take-aways. First of all, our priorities remain unchanged. We will deliver high value growth; we will continue to improve the efficiency of our operations; and we remain firmly committed to providing competitive returns to our shareholders, Statoil's returns.

Secondly, Statoil is well prepared to address the current market environment. We started to prepare long before the current or the recent fall in the oil price, and we are on track, and Margareth will even say ahead of -- no, the track -- with our improvement program.



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Thirdly, we are seizing the opportunity in the current downturn by stepping up our improvement program, further optimizing CapEx and exploration spending, and by managing the substantial flexibility in our portfolio cautiously.

And finally, we continue to invest for the future. We have a strong project portfolio that will ensure long-term value creation. And, once again, the best illustration of this is, in fact, the Johan Sverdrup project: highly profitable, and truly world-class project.

So, thank you for your attention. And then, I will leave it Torgrim to present some more details on our financial results and performance. Thank you.

Torgrim Reitan - Statoil ASA - EVP and CFO

Thank you, Eldar, and good afternoon, everyone. This morning, we announced our fourth quarter and 2014 results. And I'm sure that you have already looked at the numbers, so I will go briefly through the highlights, and I will spend time on our priorities.

As Eldar said, the uncertainty is large. But we are well prepared, and we are well positioned, to capitalize on all price scenarios, using our massive CapEx flexibility and improving our projects; stepping up further on our efficiency; and then, maintaining robust financials.

But first, let me take you through the results. In 2014, we delivered strong results. We maintained stable underlying costs; however, earnings were impacted by prices, and by impairments.

We produced more than 1.9 million barrels per day, and this is well above the guiding. Start ups and ramp ups contributed, as did strong regularity.

Our organic CapEx was \$19.6 billion. That was in line with our guiding.

And our reserve replacement was solid, 96% organic; and our three-year average is now 117%.

Exploration added 540 million barrels from the drill bit.

All projects are on cost, and they are on schedule, like Gudrun and the Valemon platform.

We announced divestments of \$4.3 billion in proceeds in a higher price environment, and this has given gains of \$2.6 billion.

And finally, our dividend policy is firm. And we propose a dividend of NOK1.8 per share in the fourth quarter; and this means NOK7.20 per share for the full year, and this is a step up from NOK7.00 per share in 2013.

In 2014, the adjusted earnings were NOK136 billion. It is down from last year, mainly due to lower prices.

Adjusted earnings also fell in the quarter to NOK26.9 billion.

Good operations resulted in high production, but lower prices impacted the result by NOK15 billion, and we took large exploration charges in our international segment.

The large currency movement had significant negative impact on DD&A, and on operational costs. Then, we make adjustments to reflect the underlying performance. Our net operating income was negatively impacted by impairments related to our international operations, and various exploration assets, giving net accounting charges of NOK18 billion. So, after tax, adjusted earnings were NOK4.3 billion in the quarter.

You will notice that we had an effective tax rate of 84%. And this is due to the exploration charges, with limited tax offsets. There is no change to our long-term tax guidance of around 70%, but please remember that with lower prices the tax rate tends to increase.

Due to prices and impairments, the reported IFRS net income was negative with NOK9 billion.



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We had strong operations in Norway in the quarter, high production with stable operating and low unplanned losses, and ramping up production from Gudrun, from Svalin, and from Fram. Adjusted for divestments and re-determination, we delivered a 3% underlying growth on the NCS for the full-year 2014. But also here, earnings are down, due to lower prices.

I'm pleased that the Johan Sverdrup partnership wants Statoil as the operator for all phases. And this is a great project under all scenarios. And we look very much forward to sending in the PDO, shortly.

I'm not satisfied by the upstream quarterly results outside Norway. Earnings in this segment are negative NOK2.8 billion, and that's mainly due to lower prices and high exploration expenses. We saw a quarterly loss in US onshore, and we do address this very forcefully.

For the year as a whole, the onshore, including the midstream, profits provided a fair return. And we continue to see good returns from international offshore. So, in 2014, our business outside Norway delivered NOK13.9 billion in earnings. And cash flow per barrel is on par with the NCS.

We delivered high production, ramping up in Angola and in the US. And this was partly offset by the farm-down in Shah Deniz.

You will see that we have a large negative tax rate in this segment in the quarter. We made good money in high tax countries, but took significant exploration charges in areas with no tax shield. This impacts the tax rate for the quarter also at the corporate level.

Finally, MPR delivers another good result, and in a challenging market. Strong performance in European gas and in LNG improved the results from the refineries, and stable results from our gas value chains, including in the US.

We produced more than 2.1 million barrels per day in the quarter; that is up 8% from the same period last year. Start ups and ramp ups, higher regularity, and higher NCS gas offtake has been key. Decline, as expected, and divestments partly offset the increase.

For the year as a whole, production was 1.93 million barrels per day. And this is a growth of 4%, which is actually twice as much as we guided at. And this growth is despite deferring our own 30,000 barrels of gas to future years.

Our cash flow from operating activities was NOK209 billion; slightly lower than in 2013, mainly due to lower prices. And please note that in 2014 we paid dividends for both 2013, and the first two quarters of 2014.

And then, we invested \$19.6 billion in organic CapEx.

The net debt ratio by year end is 20%; also in line with our guiding. And you will remember that we expected to increase our gearing in 2014.

You should also note that the stronger dollar has increased our net debt ratio by around 2 to 3 percentage points. And furthermore, the impairments have also increased the reporting gearing level.

Our reserve replacement is a result of great work by our people; solid IOR deliveries; new fields onstream; and continued drilling in US onshore. In total, our resource base is flat at 22 billion barrels, and this is despite significant divestments during the year.

So, then let me move over to the capital markets update. We are on track to deliver on our promises. We are stepping up, and then we take forceful actions in uncertain times.

We continue to invest in high-quality assets, like Johan Sverdrup. And we will grow production by 2% per year to 2016, and then 3% until 2018.

We reduce our CapEx by a further \$2 billion in 2015. And we are prepared to use our material flexibility.

Free cash flow will cover dividend in 2018 at \$60 per barrel; in 2017 at \$80 per barrel; and in 2016 at \$100 per barrel.

Second, we increase efficiency across our business. We will deliver \$5 billion in pre-tax cash improvements. And this includes a step up of our efficiency program by another 30%, and improved operational efficiency by 5 percentage points. And by this, we will reduce cash neutrality by around \$30 per barrel.

Third, our commitment to shareholder returns is very strong, and our dividend policy remains firm.



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And finally, we intend to stay below a 30% gearing across a broad set of price scenarios.

Flexibility is gold. As operator of most of our projects, we have a lot of it. We will sanction Johan Sverdrup this year. Then, the next wave of possible decisions are in 2016, so there is one year until we must decide. More than one-third of our CapEx is uncommitted in 2017 and 2018, so we are in the driving seat.

Our job is to make our projects as profitable as possible. There can be significant value in postponing projects in the current environment, optimizing development solutions further, and taking advantage of a falling supplier market. This is value over volume at work. And we are prepared to use that flexibility.

In 2014, our organic CapEx was around \$20 billion; 2015, we have reduced to \$18 billion.

And in 2015, we are actually stepping up our investments in projects under execution, stepping up by 10%, but we are reducing investments in US onshore and modification significantly. So we are investing in non-sanctioned projects, which will come into production in the next years. And these will give attractive production growth, all the way up to 2018.

My job is not to guess the oil price, but make us prepared for all outcomes, and take advantage of the situation. We will generate strong cash flows across a wide range of price scenarios. And today, I share with you our plans at \$60 per barrel, and \$80 per barrel, and \$100 per barrel of oil.

We have a robust underlying growth in cash flow in all scenarios, and we will use different level of flexibility in the different scenarios. And our aim is to balance cash in and cash out, and we are prepared to use our flexibility to achieve this. And please note, that we also have the flexibility to increase activity.

Finally, let me point out that these scenarios do not include potential divestment proceeds.

Our growing cash flow and our CapEx flexibility makes us stay within a gearing of 15% to 30% in all scenarios, even while investing in projects, like Johan Sverdrup; growing our production; and delivering on our dividend policy.

I have said many times that a strong balance sheet is absolute. This is no less important today. We have about \$19 billion in cash. And our objective is to maintain an A rating on a standalone basis, and we come from a position of financial strength.

You know the dividend policy well: it is to grow our dividend in line with long-term underlying earnings. I said last year that we expect to use share buybacks more actively, going forward. It is probably no surprise that we will not use this in the current environment.

We are putting in place changes worth \$5 billion in cash, so let me break this down in detail. One year ago, we announced an improvement program giving annual savings of \$1.3 billion in 2016. We are on track. Today, we are stepping up to \$1.7 billion.

Further, we adjust the activity level and the investment program, giving \$2.2 billion in reduced CapEx and exploration.

And finally, systematic work on operational quality is paying off. 5% improvements give \$1.1 billion in extra cash flow pre-tax; a great job done by our people, and suppliers. In sum, this is \$5 billion. And this means \$30 per barrel in reduced cash neutrality. This makes us even stronger.

We started earlier, at \$100 [per barrel] oil. A forceful program is in place with quality and precision. We are not rushing to simple cost cuts, but we are addressing the fundamentals. And we already see bottom-line effects.

We have reduced our corporate support and staff functions by around 30%. This has led to a reduced cost of NOK.7 billion.

I'm proud of the engagement and the momentum I see around our improvement agenda. We make the right choices when we can, not waiting until we have to. And every dollar counts. And I have said that I will report on our improvements annually. In 2014, we delivered \$600 million. And Margareth will come back to this in her presentation.

Ongoing developments will grow production by around 2% per year, until 2016; and this is from a rebased production in 2014, when we adjust for divestments.

Many projects started up this year: Valemon; Goliat; Edvard Grieg; and fast-track 10 in Norway; Big Foot in the Gulf of Mexico; Corrib Offshore Ireland. And then Gudrun, CLOV in Angola, and Jack/St Malo will ramp up.



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Then, growth will be 3 percentage points per year from 2016 to 2018. Aasta Hansteen and Mariner will come onstream, and then Johan Sverdrup will come in late 2019.

We manage [our] decline well, and it is stable, around 5%. For 2015, we will reduce plant maintenance. Full-year maintenance is expected at 45,000 barrels per day, and 10,000 barrels per day should be expected in the first quarter.

This is times of opportunities. We step up improvements, and flexibility is gold. I see our project economics are getting better, so postponing projects can be good business. We will deal forcefully with all price scenarios, securing free cash flow to cover dividends. And we have a robust financial framework, with low gearing.

So, in short, we started early, and we are well positioned to create value and become an even stronger company, though we are stepping up further on our commitments.

Thank you very much for your attention. And then, I will leave the word to you Margareth, the best oil woman in the world, to share your reflections. So, thank you.

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

Thank you very much, Torgrim. I just wonder, what did you say? Did you see leave the word to Margareth, or leave the work, work, to Margareth? And it's good to see you all. You have heard very clear messages from Eldar and Torgrim today, our good looking, white collar workers, and that goes for you too, Peter; now let us get to the real stuff: the steel, the nuts and bolts, and the drill bits.

Good story today, good news, our efficiency program is ahead of last year's target, and we are stepping up. I know this is a bold statement in the current industry context. My presentation today is all about us delivering. First, on project and well execution, we are performing well, and we will continue to do so.

Secondly, we see strong progress on our efficiency agenda. We are ahead of expectations towards CapEx and OpEx savings, and we see substantial production efficiency effects, and larger than anticipated.

Thirdly, solid delivery allows us to step up our efficiency program, and we are increasing the target by 30%.

Today, I will give you some more granularity in our progress, and how we seize the opportunities going forward.

We continue to deliver projects and wells on cost, either on or below cost, this in a time when industry sees big cost over runs and delays. Since last capital markets day, we have delivered both the Gudrun and the Valemon platforms on time, and on cost. And delivering such large and complex platforms like this proves to me our solid project execution.

HSE performance is a fundamental part of a strong and sustainable business. We maintain very solid HSE results for our facility project with a series incidents frequency of 0.4, in a time with very high activity level and growth in our global delivery model.

In drilling and well, we have delivered a serious incident frequency of 0.6, significantly improved the last years, and with no serious well control incidents in almost five years, which is the most important measure.

In short, we continue, as promised, on cost, on time, competitively.

And the November 2014 results from the independent project analysis, which is IPA, demonstrate that we are competitive and improving compared to industry benchmarks. Both on facility and on well competitiveness, we are better than industry average.

So how is that reflected in our effort to improve efficiency? Last year, we committed to an OpEx and CapEx savings of \$1.3 billion in 2016; and we also committed to specific improvements within identified areas, as you can see on the slide. I will revert to each of these in the following slides.

And one year, on we are ahead of expectations. Total efficiency realization for CapEx and OpEx in 2014 was \$600 million. In addition, improved efficiency on the production side contributed to \$1.1 billion in pre-tax cash flow. In fact, our progress gives us confidence to increase the efficiency target by 30%. This means a new target of \$1.2 billion in CapEx, and \$0.5 billion in OpEx in 2016, and onwards.



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And more specifically, we reduce the US onshore cost per barrel by 30%; we increase the target on modification savings from 20% to 30%; we reduce the field costs on Norwegian Continental Shelf by 20%; and we are targeting sustainable efficiency improvement across portfolio.

In the current price environment, this is obviously imperative, but I would say, say it as important in good times as in bad times. Anyone in this industry can easily cut activity, but here I strongly believe we differentiate from our peers. We are delivering real efficiencies, real efficiency improvements now; and we are on track towards new ambitious targets for 2016, and onwards.

Next, I promised you drill bits, so lets talk about drill bits. In 2014, we increased meters drilled per day for our offshore wells by 21%, which contributed to 16% reduced time per well; a huge improvement in such a short time. We achieved it by leaner design, standardized wells, setting tough targets by the perfect-well approach, and increase operational efficiency, together with our suppliers. Let me give you a few examples.

The two latest Gudrun production wells were delivered to 25% faster and 40% reduced cost. At Statfjord, where we have world-class well deliveries, we are 20% ahead of plan in 2014, on average.

All our exploration wells globally delivered, on average, 20% ahead of plan last year.

For unconventional US onshore, wells we target now at 30% reduction in costs per barrel. And last year, we delivered barrels 16% cheaper than in 2013. And there is more to come. I am confident we can further increase efficiency effects for 2015, and 2016.

Statoil has -- as Eldar and Torgrim said, we have a very flexible project portfolio, and that competes for funding. And we have a target to reduce facility CapEx for non-sanctioned projects with at least 10%. These savings will materialize as projects enter execution.

We are reducing CapEx in several high-impact projects by more standardization, leaner concepts, and cost effective solutions. And let me give you a few details of few examples. On Johan Sverdrup, we have reduced drilling -- estimated drilling costs by \$1.2 billion by improving drilling efficiency, well placement, and simplifying wells.

And we will continue working on efficient development solution. And I believe standardization will be a key, both for subsea, as well as for the top side.

In some, Johan Sverdrup, Phase I will be approved with a break-even below \$40 per barrel. A true industry adventure. And you know even for an experience, and perhaps old, woman like me, I feel like a child opening their birth -- a big birthday present when I'm looking into the Johan Sverdrup project.

The Gullfaks Rimfaksdalen is a very robust project with a break-even below \$40 [barrels of oil equivalent], and it was sanctioned just prior to Christmas.

CapEx has been reduced from \$1.5 billion to \$0.8 billion by leaner scoping, less modification on the Gullfaks A platform, as well as use of the existing infrastructure.

For Johan Castberg, we have reduced the CapEx estimate by about \$2.5 billion by reducing the number of wells; simplifying the subsea infrastructure and the floating production unit. The ambition is to reduce another \$0.8 billion to \$1.7 billion.

For the Oseberg Future, some of you might remember my subsea on slim legs from last capital markets day, which is an unmanned platform, with -- unmanned wellhead platform with minimum top-side equipment. And here it is, technically qualified and selected as a very cost effective alternative to subsea development on Oseberg Future; now also being evaluated in four other -- or four or five other development projects.

Now, to the modifications. We have reversed a trend of increased modifications costs in -- on our operated fields. We have done this by stricter prioritization on modifications; leaner scoping; and increased productivity by working closely with our MMO suppliers, this whilst maintaining and closely monitoring technical conditions of our facilities.

Of course, field up time and regularity are imperative to sustain and improve. One out of the many good examples is Troll A, the fire and gas upgrade, reduced, or where the cost is down, more than 40% by reducing scope and a leaner execution model.

Now we are increasing our cost reduction target from 20% to 30% on modifications.



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Let's also look at the field cost improvements on NCS. To the left, Statoil has one of the lowest unit production cost per barrel in the industry. The main operational OpEx element we can influence is the field cost. This is operational cost for running facilities. Last year, we reduced the NCS field cost by 6%; and we target a 20% reduction in 2016.

As a former platform manager, I know these are really tough numbers, but we cannot aim for anything less.

We have reduced field costs by tougher prioritizations, sticking more to plans; more preventive and less corrective maintenance; and we have also reduced staff numbers, in particular the external resources, which is down with 13%.

And I'm proud to say, HSE has never been better on Norwegian Continental Shelf.

And now, it's the jewel in the crown: our success in improving the production efficiency. Production efficiency is at record levels, even with an all-time high number of turnarounds. This provides, as Eldar said, valuable barrels with a cash flow effect, as already mentioned, of \$1.1 billion.

Unplanned losses have been reduced by 5 percentage points compared to 2013, and that is just for -- it's both for NCS, as well as for Peregrino; and 7 percentage points compared to 2012 on the Norwegian Continental Shelf.

And I must admit that I never thought we could accomplish these results so fast. To achieve this, and make the results sustainable, it is all about leadership, setting tough targets; competent people; and increasing technical robustness of our plans.

A few examples. On Snohvit and Grane, our technical people and operational people have sat together and increased robustness of our rotating machinery.

We have solved riser issues. We utilize new non-intrusive inspection technologies to reduce inspection time during turnaround. And during 2014, we implemented a successful production efficiency pilot at the Oseberg field center, building on experience from producing -- from production optimization groups.

By connecting operational people and technical people and developing best practices, we achieved more than 4% increase at Oseberg production compared to forecasts. And we will now roll out the Oseberg field pilot methodology for all the other offshore assets.

How will we seize the opportunities, going forward? The main building blocks for future competitiveness is more standardization; is about targeted technology development; it is about capitalizing on the market opportunities; and it's also about our operational excellence.

And my standardization, stairway to heaven from the last CMU, has been brought to life step by step. But more standardization is needed. Now we target standardization across the subsea industry, while the subsea plug-and-play initiative we are working on standardized model sizes and open interfaces to achieve the plug-and-play functionality.

Standardization is not alone sufficient; more targeted technology development is essential. Technology for cost efficiency and value creation implemented broadly is really what we are chasing, for example, plug and abandonment improvements.

More than 1,000 wells will be abandoned on the NCS the coming 25 years. We think we can reduce the cost by 50%, and new technology will be a key contributor.

Then, we will further capitalize on market opportunities, and we do it in three ways. It's about joint efficiency improvement programs, and KPIs with our suppliers, which I think is the most important.

Then, it's about new contract models, more aligned incentives, etc.

And the third, we will selectively renegotiate and retender. And we see in recent tenders we have reduced costs by up to 30%.

Fundamental is also to continuously improve operational excellence. This is pretty much what I have been talking about today, for example, the drilling and the production efficiencies; leadership and right-sizing of the organization is an integrated part of this.

Within my business area, which is technology, projects, procurement, and drilling and well, we have seen a huge increase in activities the last years, particular, within the projects area. Still, we have reduced the staff by 10% from January 2014 by working smarter, and more efficient. For example, management cost in our projects is down from 10% to 7%. In total, I know we can achieve more efficiency gain in the years to come.



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Summing up, we deliver project on our promises, and we'll continue to do that. We are making strong progress on our efficiency program, and we step up. And we are on track to deliver on the increased targets, and the commitments. In short, we seize the opportunity.

I have been in the industry for more 33 years and it has never been more challenging, but also never been more inspiring and energizing. The tougher targets spur me on. And as much as I enjoy being here, I actually can't wait to get back to the team and continue the effort.

I suggest we make it an efficient Q&A. And thank you.

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QUESTION AND ANSWER

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

Thank you, Margareth. While we're just moving these onto the stage, first of all, Eldar, Torgrim, Margareth, thank you for three on-time deliveries. That leaves us a little bit more time for Q&A, which I think is important.

Ladies and gentlemen, we will now open for questions. (Conference Instructions). We have a lot of people in the audience today, and a lot of people on the phone, so I'm afraid I'm going to be fairly rigid in terms of polling for questions, and I'm going to ask just for one each, and one which is to be broken into two, three, or four subparts. I know the tricks; I've been on the other side of the table.

So, if I could ask Eldar and Torgrim and Margareth to come on and we'll start to take the questions. Okay?

Jon Rigby - UBS - Analyst

Jon Rigby, UBS. So early that, I guess, discipline has to be -- we're not going to slip into the twos and threes that I would have got in half an hour later. So can I just go -- it's evident, actually, one area that wasn't discussed very much, which is exploration, other than to say the reiteration of the fairly large budget.

Can you talk a little bit about, given the way that accounting works, you take the cost but not the benefit, have you got any metrics or measures about how much value your exploration has contributed across the cycle, so we can make some sort of judgment about that? Because, clearly, the costs are scarring the historical cost accounts right now, but obviously the value of some of the things you've discovered over the last three or four years are not yet appearing on your accounting valuation. Thanks.

Eldar Saetre - Statoil ASA - President and CEO

I think it should be recognized that we have added quite substantial volume of barrels through our resources through exploration over the last few years; and I think you've seen evidence of that in the list of projects that was shown by Torgrim. And I guess the most profound evidence is through the Johan Sverdrup project.

So I think this is translating into concrete projects. And that's the time where we actually see the full value of the barrels being demonstrated. In the exploration phase, this is about finding the hydrocarbons, and then you start working on it and see how you can develop these into valuable resources.

Internally, obviously, we have value estimates, but it's a difficult technology to discuss that externally. So this is really what has to be translated into concrete projects. And I think we have demonstrated also this year that we have added valuable barrels, for instance, on the Norwegian Continental Shelf, next to the Grane field, highly valuable. It will be a still fast-track project going forward, and it's highly valuable, as such.

They've added barrels in Tanzania during this year, as well. That's a project that we are working extensively on, and it's progressing. And we are working on the cost side on that project, which was illustrated and mentioned also by Margareth in her presentation.

Jon Rigby - UBS - Analyst

Are you able to just give us an estimate of what you think you're return on investment across the cycle is on the exploration budget?

Eldar Saetre - Statoil ASA - President and CEO

You know the returns will turn out as we are developing this into projects. So defining that, at the portfolio level remains to be seen as we see the outcome of the exploration results. But we indicated today, maybe the most significant project that we have discovered lately, the Johan Sverdrup project, with a profitability below \$40 per barrel. But at the portfolio level, we haven't any information on that to present to you today.

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Anish Kapadia - Tudor Pickering & Co. Sec - Analyst

Anish Kapadia, Tudor Pickering. I'd a question on the US business in this current environment. If you're thinking of a \$50 to \$60 per barrel world, can you just run through the number of rigs you'd expect to run in the US this year, and production expectations for each play; and also, the potential for any monetizations of, say, infrastructure, your pipeline assets that you've got, in the US related to those assets?

Eldar Saetre - Statoil ASA - President and CEO

I leave that to Torgrim, actually.

Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, thank you, Anish. We have taken down the activity significantly in the US onshore over the last few years. We see good value in waiting with some of the drilling, currently. So we currently -- at year end we ran with six rigs in Bakken, five in Eagle Ford, and also six in Eagle Ford, and then we have reduced further this year. So it's finding the right balance, and right activity level.

What we also see is that our costs related to drilling and completion are coming significantly down; and then, is extremely important to be able to take care of the hydrocarbons, in particularly in environments like this, when it comes to infrastructure, and so on. So, it works. But, of course, it is impacted by the current price environment.

As a year as whole, the value chains in unconventional is generating a return.

Haythem Rashed - Morgan Stanley - Analyst

Haythem Rashed, Morgan Stanley. My question is just regarding comments around the dividend and some of the priorities you outlined earlier, perhaps a question both Eldar and Torgrim. But essentially, you talked about the dividend staying flat for the -- or intending to keep the dividend flat for the next three quarters. You also talked about a net debt-to-capital target or a ceiling of 30%.

Just wanted to get your sense on as we look beyond, and if we do stay in periods of weaker oil prices, how do you prioritize the two? Is there a situation where you find yourselves you're maxing out on your flexibility and also meeting your higher gearing and then having to reconsider the policy around the dividend? Or perhaps just a bit of -- around that would be great.

Eldar Saetre - Statoil ASA - President and CEO

We are highly committed to our dividend policy. It's essential to us that we're able to deliver a competitive return in line with that policy; we have demonstrate that today. And we have also shown you a financial framework, where we will be able to do that also going forward in a wide range of scenarios, from \$60 to, obviously, \$100 per barrel.

The CapEx flexibility that we have in our portfolio is a part of this; that is reflecting various types of price scenarios. And what we should remember then is that if these price scenarios actually play out it will be a situation where it makes a lot of sense to delay the projects because they are simply not profitable in the current environment to be sanctioned.

So, fundamentally, this is a very consistent approach what will happen in those kind of dynamics. And it gives us very strong confidence that we will be able to honor and present the competitive dividend through the cycle, in whatever type of commodity environment that we will see, all the way from \$60 to \$100.



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Lydia Rainforth - Barclays - Analyst

Lydia Rainforth, Barclays. In terms of the flexibility that you've provided in the presentation, and that was hugely helpful, thank you, it seems that, as Margareth said, Statoil is doing all of the work. How much help do you actually expect from external providers, and in terms of external cost deflation as well?

And apologies for [squeezing in], but the second part of that question is for Margareth. What's the most difficult part you're finding within the efficiency program right now?

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

This is for Margareth, yes. But how we attack the market side, I think the most important is working together with the suppliers on the improvement projects. And we are working very closely now with our main suppliers, and I think that is maybe 80% of it.

But, of course, in these circumstances, we are also discussing and renegotiate and retender. And, of course, as I said also in my speech today, that we see decreases in the prices. So you have to use the -- you have to utilize the different dimensions you have, the opportunity to do. And, of course, improvements is the most sustainable.

In a negotiation, normally, you need to give something and you get something. And if you're somebody -- I hear from some of our peers, they are giving an oil indexed price and you know then you are back again.

So I will use -- we spend a lot of time on the improvement side, because that is lasting improvements, going forward. It's not that easy to give duration on more demands in these circumstances, either. So I think the best is really to work on the improvement side, because there is a lot to take out on efficiency gain.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

What I'd like to do now is to open up for a couple of questions from the phones. Operator, I know you've polled for questions already, but if you could do that one and take the first question over the phone, please.

Operator

Thank you, sir. Teodor Nilsen, Swedbank.

Teodor Nilsen - Swedbank Markets - Analyst

One question; it's related to the CapEx guidance for 2015. Could you give some more details on the reduction from the 2014 level of \$20 billion? What is price effect, what is activity effect, and what is the effect from the divestments you did in 2014? Thank you.

Torgrim Reitan - Statoil ASA - EVP and CFO

All right, okay, thank you, Teodor. CapEx is down to \$2 billion. From 2014, we are actually stepping up on sanctioning projects by 10%, and we will invest in Johan Sverdrup, so that will be an important explanation of that.

Then, we are reducing activity within US onshore. A few years back, we invested around \$4 billion a year in that business, now it is significantly below the half of that.

And then, we are reducing our investments into modification and projects under execution.

So those are the main elements of it. There is, when it comes to currency impact, a light effect of currency impact there as well.



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Operator

Anne Gjoen, Handelsbanken.

Anne Gjoen - Handelsbanken Capital Markets - Analyst

Is it possible to indicate the share of oil-linked contract from Norway, it's usually gradual usual impact of lower oil price in such contract with a six- to nine-month lag? And is there a downside for floor price on those oil-linked contracts? Thank you.

Eldar Sætre - Statoil ASA - President and CEO

Okay, I guess this is for me, referring to my previous occupation. We have, as you know, been through a process where we have come a long way in transforming these contracts, modernizing these contracts, to put it that way. It's still a job which is in north-western part of Europe, has been 100% complete. It's come a long way as we move south in Europe, and less so as we move east. But, obviously, our main market is in the north-western part of Europe, and partly in the southern parts of Europe.

So this has come a long way. In terms of exact percentages, I will not be very precise. But, by far, much more than 75% of our portfolio is actually now linked to gas market pricing. And we expect the trend towards full market pricing to continue, but it might take some time until we are finally there.

But I think this is a very good development, and I'm also very pleased that the EU, the internal market, approach is really enhancing this as we move forward.

The structure of the oil indexation is basically depending on each individual contract, and you have the delay that you indicated. But beyond that, I cannot comment more specifics on the contracts; we really have to look at each individual contract.

Operator

John Olaisen, ABG.

John Olaisen - ABG Sundal Collier - Analyst

You say that you have an ambition, or a plan, to be covering dividend with free cash flow in 2018 at an oil price of \$60. I just wonder, if that happens, oil price is \$60 in 2018, and you cut CapEx so much that you're able to cover dividend at \$60 in 2018, how will that impact your more long-term ambition?

And your long-term ambition has been stated at every capital markets day, or capital update, or whatever you call this day, over the last few years to have been about 2.5 million barrels. So if a \$60 oil price, would that still been the ambition to do 2.5 million? Or 2.5 million is that still ambition at some point in time?

Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, thank you, John. Covering dividend in 2018 at \$60 is part of the planning framework that we use. Even in that oil price scenario, there are actually quite a few very interesting investment opportunities.

A lot of the IOR efforts are very, very solid that we plan for, and we also plan for quite a few developments. But there is actually quite a long list of projects that will benefit strongly for simplifying and taking out cost and making them even more robust. So, in such a scenario, quite a few projects that need to wait for a while.

And you are right; lower investments over many years will impact the longer-term growth of the Company, but we are very cautious to also take a long-term perspective into what we are doing: exploration, Johan Sverdrup, and then maturing the full set of investment opportunities.

I've been working with planning for many, many years and I have actually never seen such a full plan of opportunities. What we have on the table is sufficient to grow for more than 10 years. So this is a question of how hard we push on the accelerator.



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Eldar Sætre - Statoil ASA - President and CEO

May I just add that this strategy is also leaving us with more robust projects for the future? So I'd say the fact very consistent what we always have said now, that value is more important than volume. And this will really drive value into our portfolio.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

I'm going to swing back into the room and we'll come back later on for some more questions on the phone. Biraj?

Biraj Borkhataria - RBC Capital Markets - Analyst

Biraj Borkhataria, RBC. Just looking at your step-up program and it looks like an additional 200 million on the CapEx side and 200 million on the OpEx side. How does that additional amount on the OpEx side compare to your total addressable cost base? And are you assuming any industry inflation, deflation in that figure? Thanks.

Torgrim Reitan - Statoil ASA - EVP and CFO

All right, on the improvements, the step up in the improvements, it is, first and foremost, related to modification, as Margareth said, our onshore business, and also field cost in Norway, and drilling and wells. In the current cost environment, with that loss there will be a further cost impact than what we assume.

Mark Bloomfield - Deutsche Bank - Analyst

Mark Bloomfield, Deutsche Bank. Question for Torgrim, please. In your presentation, on, I think, page 11 there was a chart just showing the range of operating cash flow numbers at a number of different oil price assumptions.

If I read the chart correctly, it looks like you're assuming around a 20% to 25% improvement in cash generation at a broadly constant oil price between 2015/2016 through to 2017/2018. Guidance seems to suggest that volumes will be 7% higher, 6% to 7% higher over that time, so perhaps you can give us a sense of what the other moving parts are just to try and bridge that gap, get us to the 20% to 25%. Thanks.

Torgrim Reitan - Statoil ASA - EVP and CFO

All right, it is actually mainly linked to projects under execution that will come onstream. In 2015, we have six projects: Valemon; we have Goliath; Edvard Grieg; we have fast-tracks; and Big Foot; and Corrib; and then, furthermore, in the period afterwards.

Quite a few of the projects comes out of Gulf of Mexico, where we are not in a tax-paying position, so there will be more cash flow with low taxes. So that is the main contributor to that growth.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

Michael?

Mike Alsfeld - Citi - Analyst

Mike Alsfeld, Citi. Another question on exploration, actually. I was a bit surprised, given the comments on flexibility, that the exploration budget wasn't lower. Is that a function of the fact that you've got contracted rigs that you can't lay off? Or is it a function of what committed -- what commitments you have on your acreage?

And perhaps if you can give a bit of color as to where you're spending that money; is it appraisal, is it exploration? That would be helpful. Thanks.

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Eldar Saetre - Statoil ASA - President and CEO

The level is partly reflecting certain commitments that we have in our exploration program. But it's also reflecting the fact that we would like to continue with exploration at a high level. We want to be an exploration company also in the future, and we want to be as successful in the future as we've been in the past. So it is important for us, for the longer-term value creation, to keep up a decent exploration level; but it's, at the same time, a tightening compared to what we have seen in last year.

In terms of where to spend the money, it is wide range of opportunities that will be included in the drilling program this year. We will drill further wells in Gulf of Mexico.

The east coast of Canada is a very important focus area for us this year, so we have a rig which will drill continuously for more than a year in east coast of Canada. And Brazil is also one of the activity areas. Norway, obviously, King Lear, and other -- or opportunities surrounding King Lear, and also other opportunities in Norway. So it's a wide range of opportunities, more or less across the globe.

Any missing points there?

Torgrim Reitan - Statoil ASA - EVP and CFO

In addition, last year we had quite a bit of carry in our exploration program from other partners. So the drop in activity is actually quite a bit higher than what you will read out of the numbers.

Eldar Saetre - Statoil ASA - President and CEO

Just also mention, if I may, that actually, Tanzania, we will have more wells to drill in Tanzania. And UK, where we accessed some quite interesting exploration acreage, we think there is more to be done on the UK mature sector. And we have added acreage, and that is also something that we hopefully will be able to start doing exploration on during course of this year.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

Brendan?

Brendan Warn - BMO Capital Markets - Analyst

Brendan Warn, BMO Capital Markets. Just, in the past you've given us some performance range, or indicators, for the MPR business, and I wonder if you can make some comments in a \$60 oil price environment. And just what sort of contribution to free cash flow do you see from this business from 2016, please?

Eldar Saetre - Statoil ASA - President and CEO

Basically, this is the margin business. And margins is something to see whether it's \$60, or \$100, very much about volatility, and the structures of the curves, that sort of sets the basis for making money. So I don't see any reason why \$60 should be a worse place to be in terms of making money. Obviously, refinery margins have their own dynamics, but it's not a big part of our portfolio.

So we have guided on a range around 3 billion, going forward. This has been a good quarter, but we also had quarters below that. And I think still we maintain that as a guiding, but I am very happy to see that we actually have been able to deliver an average this year which is above that level.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

Gordon?



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Gordon Gray - HSBC - Analyst

Gordon Gray, HSBC. It's a follow up to the question on cash flow growth, on the outlook for cash flow growth, and that big uplift you're pointing to at like-for-like oil prices versus last year.

I appreciate the issue about the new projects coming onstream and the margin accretion. Can you just outline, I think, earlier you mentioned that the P&L tax rate would stay flat at around 70% in the next few years. Is that the case through the plan period? And, in particular, if it is, can we expect to see the cash tax rate coming down from that appreciably at all because of uplift allowances, or tax shields, etc.?

Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, thank you. To the world of taxes, so you should expect around 70% corporate tax as the normal. And then, it is important for me to say that in a low price environment you typically see a slightly higher tax rate.

The way that taxes react to oil prices is very different from place to place. And the Norwegian tax system is a system that we think works well in a high price environment and a low price environment. It is a net income or net cash flow tax, so the reduction in oil price is sort of -- the tax system is part of dealing with that. So that is part of the explanation of the cash flows going forward here.

So the -- what you in addition will see is that we pay Norwegian taxes with a six-months' delay. So, as oil prices drops, there will be a lag of six months before the cash taxes follows on.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

We're going to take two more questions from the phones. So, first question from the phones please.

Operator

Christian Yggeseth, Arctic Securities.

Christian Yggeseth - Arctic Securities - Analyst

Just a question as to the program. Could you please specify the level of CapEx you used for calculating the \$60 free cash flow to cover dividends for 2018?

Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, I can't give you the exact CapEx number, but it lends itself that we will use significant part of the flexibility in such an environment.

Operator

Jason Kenney, Santander.

Jason Kenney - Santander GBM - Analyst

I was just wondering, in the fourth quarter period, whether your gas business had any unusual support because of the Ukraine situation, and if that was something that might unwind in time.

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Eldar Saetre - Statoil ASA - President and CEO

I don't see the Ukraine situation having any major impact on the earnings during the quarter. The gas prices in Europe is impacted by several factors; one of them is the temperatures, and it has been pretty mild so far, and, obviously, LNG coming into the market. Then, in Asia we have seen an impact from oil indexation and lower prices, which has also had some impact on the trading market for LNG, and that has led to more LNG coming into the European sector.

So that is basically what has created or defined the fourth quarter prices that we are faced, and I see no direct impact from, at least not that I can identify impact, the Ukrainian situation, as such.

Aneek Haq - Exane BNP Paribas - Analyst

Aneek Haq, Exane BNP. It's similar-ish to the question that was asked earlier on the balance sheet, but I wondered if we can bring it back to the single A credit rating, and maybe talk about some of the metrics that the agencies will care about and how they look at your \$60 to \$80, \$100 per barrel range, please; and how important, obviously, the single A rating is in that context.

Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, so, thank you. Currently, we have a AA-minus with Standard & Poor's, and we have a notch higher with Moody's, as a credit rating. There are different KPIs, or metrics that are used. Funds from operations or net debt is a key one that we follow very closely.

Important to us is to remain with a strong credit rating, and also to run with significant liquidity through periods like this. So this is something, of course, we also follow very closely.

Marc Kofler - Jefferies & Co. - Analyst

Marc Kofler, Jefferies. I just had a question, coming back to the free cash flow framework that you've outlined here, and the key moving parts, particularly given, as you've referred to, the volatility, the oil price environment that we see at the moment. I was wondering, does that present any opportunities in terms of the portfolio structure from an inorganic perspective, particularly in the context of your existing footprint in the US and the markets over there?

Eldar Saetre - Statoil ASA - President and CEO

We have been pretty clear, all the way since 2011, that inorganic ways of developing our portfolio, sharpening it or expanding it, is a key part of our toolbox, and I hope I haven't given any indication today that that is not still the case. We see that we need to use that actively, and we have demonstrated that extensively, not the least during 2014, which has also contributed significantly to our balance sheet.

In this current environment, it's an obligation we have, as part of what is going on, to look for both opportunities. There could even be opportunities to divest, if that is something we'd like to do; but also, to look at opportunities to acquire assets, or whatever.

So that's something we are doing as a very natural normal part of our business development, and we will continue to do so. It will be a mistake if I didn't follow that market also closely, even in this -- also in this environment.

Hamish Clegg - BofA Merrill Lynch - Analyst

Hamish Clegg, Bank of America Merrill Lynch. Just on -- two questions ago; this one's for Torgrim, talking about liquidity, something you mentioned. On my numbers, and you may correct me, it looks like debt maturities this year are matching undrawn credit facilities in cash when you factor in the cash burn. I was wondering if there was a deliberate reason you guided us to three-quarters of flat dividends, as opposed to four. Is that keeping open a degree of flexibility for you on the balance sheet?



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Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, all right, let me be very clear, there are no links here at all. We will run with a significant liquidity position; it is important to us.

On the dividend, the reason why we talk about three quarters, and maybe this is confusing someone, it is the mechanics. Because what we have done earlier is that we have announced a new dividend level at the fourth quarter, then we have kept it on the same level for three quarters, and then we have taken a step up in the fourth quarter again.

So it is just mechanics; that we know, say, NOK1.80 per share per quarter. And the intention is to keep that flat, as we have done earlier during the year. So there is no signal beyond the three quarters, other than that our dividend policy remains firm.

Rob West - Redburn Partners - Analyst

Rob West, Redburn. Margareth, just going through the operational improvement details you've taken us through, I think I'm now faced with the mountainous task of going through all the different metrics and trying to add them up and getting to your \$5 billion.

To help with that, the metric that I find useful to consider in doing that, and it's just the overall up time at operator platforms across your portfolio, which is quite useful to compare with where other people are, what was that in 2013? Where was it in 2014? And where are you trying to take it to? And how much of the \$5 billion total does that get you to?

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

Normally, we don't reveal these figures on the total up time. But the unplanned losses last year is 5% lower than -- 5 percentage points lower than the year before, and 7% less than in 2013.

Torgrim Reitan - Statoil ASA - EVP and CFO

Could I just add to that, because the overall regularity is impacted by other factors than unplanned losses. So that has to do with maintenance cycles, and so on, we don't do that every year; and value chain impacts, and so on. So what is really measuring our performance and indicating our performance is on the unplanned losses, which is the biggest chunk of defining our regularity.

Rob West - Redburn Partners - Analyst

Yes, that's why I asked. I was wondering how much lower can you take it than 4% unplanned losses? And could that go to zero?

Torgrim Reitan - Statoil ASA - EVP and CFO

Okay, well, yes. Well, then there's approximately 5% left (laughter).

Rob West - Redburn Partners - Analyst

Thanks.

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

But this is really improvements the last year. It's -- and you know we are working on a very broad basis. So both to make the facilities more robust, but it's also the operational people driving efficiency from a day-to-day basis; setting very tough targets; solving all bottlenecks at etc. So it's a very combined effort

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Eldar Sætre - Statoil ASA - President and CEO

Could I just add? Even when the production platforms are producing, so there are no unplanned losses, it is also thing we can do in actually optimizing the wells and making sure that we get the maximum out of the production when the facility is actually producing.

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

Can I add? For instance, on the Oseberg field pilot, this is really to increase production, as well as increasing the regularity. So when we are -- we will broadly implement that pilot for the whole Company also.

Neill Morton - Investec - Analyst

Neill Morton, Investec. Question on your international upstream business, results have proven quite volatile, particularly on a quarter-to-quarter basis. Just for modeling purposes, can you maybe give us some guidance on unit OpEx and unit depreciation for 2015, the latter, obviously, in light of the big impairments in 2014? Thank you.

Torgrim Reitan - Statoil ASA - EVP and CFO

All right, okay, thank you. First, on DD&A in the accounts, you have probably seen a growth in DD&A; it is actually significantly impacted by currency. The increase in DD&A is 60 -- two-thirds of it is related to currency impact, and actually increased production. Internationally, we see a DD&A per barrel, in dollar term, to be flat over the year. So that's an observation.

When it comes to operational costs, we have the similar effect there. There is a 9% growth in operational costs year on year; half of it is related to currency. And then, there is increased activity into that number, but that is actually counteracted by lower SG&A cost and other costs elements.

So, over time, you should expect DD&A per barrel to grow somewhat. It is natural that new developments are more capital intensive than the old ones that are going off plateau.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

Okay, I see the rigid discipline of one question per person has yielded some benefits. We've still got a few minutes left. Is there anybody -- I've tried to get right the way round the room. Can I just ask, if there's anybody that I've missed out or has a supplementary question.

Andrey Aleev - Credit Suisse - Analyst

Andrey Aleev, Credit Suisse. I have a question on your M&A policy. You chose to keep your exploration budget at a fairly high level, whereas we've seen that the value of these potentially discovered barrels is quite low. How do you think, when you're making these choices, whether exploration is the best use of your capital versus potentially acquisitions in a buyer's market? Thank you.

Eldar Sætre - Statoil ASA - President and CEO

Well, I don't accept your starting point, that there's low value from our exploration. Look at what has happened to the Norwegian Continental Shelf over the last few years. It's a tremendous energy that has put into the Norwegian Continental [Shelf] from new exploration and new barrels and new field developments, and we see the evidence of that.

This is -- obviously, I wouldn't do this unless we haven't seen value in what we're doing on exploration. So we are convinced that this is still at the core of what oil and gas industry is about. And it's something that we need to do.



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I've been through this experience before. We cut exploration massively some years ago in a downturn, and we were hurt by that for years. So I think it is extremely important that we try to maintain a decent exploration level; and, in particular, as long as we have this strong feeling that we are pretty good at it as well.

That doesn't say that this is not -- has to be supplemented, and we have seen that as well through inorganic measures. Again, we have demonstrated that, and it's a very important part of our toolbox. Obviously, if gradually we see that if we fail -- we have seen global exploration volumes coming down, so it's increasingly difficult to stand out in this area. So it's important for us to have M&A also as a tool, part of the toolbox, into the future, and we are doing so.

Mehdi Ennebati - Societe Generale - Analyst

Mehdi Ennebati, Societe Generale. I will ask one question regarding 2017/2018 cash from operation and CapEx. You show, on slide 11, that, at \$60 per barrel, you might have the flexibility on CapEx to be free cash flow neutral, post dividend.

Don't you think that in 2017/2018, by cutting again your CapEx, you might put a lot of pressure to your organic reserve replacement ratio, which is already low compared to peers? And do you want to take that risk?

And maybe just one follow-up question on your cash from operations, 2017/2018. Which natural gas price, particularly in Europe, do you take into account? Thank you.

Eldar Saetre - Statoil ASA - President and CEO

Obviously, and have we discussed this a little bit on a previous question, if we don't sanction projects we will see, at one point, fewer barrels. But if we see \$60, or \$80, in three, four years from now it will be a very different environment: cost picture will look very differently, and a lot of the projects that is ahead of us.

And remember, we don't have to make any additional decisions of any significance beyond the Johan Sverdrup, so we have the flexibility throughout this year.

But if we see that picture emerging, it will be a totally different situation and the [force] joint ventures, all players in this will really have to address the cost picture vigorously. And I think the whole industry will come together and see that we have to improve our projects. And that's, basically, also what we're saying.

We will do that to capture what we can gain into the project, both from the supplier environment, and also from the improvements that we are embarking on, to put that into full force into the project, and reducing the break-even prices, and through that also add value. So not only barrels to the equation.

But, obviously, over time, at one point, if you don't invest in more projects you will see an impact on the volumes and on the reserve replacement rates.

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

At the same, I just wanted to add, we are working heavily on the very early phase projects to improve them, getting better with the break-even lower. And I think we are -- I tried to show you some of the examples on my slide, how we have been working on project to get the cost down.

Torgrim Reitan - Statoil ASA - EVP and CFO

If I may, yes, but the resources are still there for us, so it's a matter of timing of sanctioning, and so on. Again, value is more important than bringing this on as soon as we can.

Nitin Sharma - JPMorgan - Analyst

Nitin Sharma, JPMorgan. Torgrim, if we look at that \$60 oil price scenario 2015, 2018, how does your ROCE stack up under that scenario? And how does it compare to your cost of capital, please?

Torgrim Reitan - Statoil ASA - EVP and CFO



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I think there's no secret that in the current price environment return on capital employed will drop compared to previous years. So, it will. But what we see in the \$60 plan, or scenario, is that gradually increases over the years, so when you get to 2018/2019 it is back on current levels, but in a \$60 environment.

Matt Lofting - Nomura - Analyst

Matt Lofting, Nomura. Question on impairments, if I could. Can you just clarify what pricing scenario and long-term oil price you've used in the impairment testing process with full-year results, and what the carrying value is for the US onshore business? Thanks.

Eldar Saetre - Statoil ASA - President and CEO

Maybe I should take this CFO-type -- used to be I would love to answer that. Basically, the main part of the impairments here is related to the oil price. Approximately, 90% of the impairments has to do with oil price.

I will not comment on the long-term perspective of this, but what is -- what really drives this is the short term. And from an accounting practice perspective, what we are doing is to use basically the forward curve as it looks for the next few years. That is defining the set of assumptions that goes into our impairment calculations.

And then, you might like to add something.

Torgrim Reitan - Statoil ASA - EVP and CFO

The prices that is used is prices at the balance sheet date, end of year. I just want to draw your attention to one of the notes where we have made a sensitivity to what the lower pricing, now that, what sort of impact that would have on the accounts.

Operator

John Olaisen, ABG.

John Olaisen - ABG Sundal Collier - Analyst

Thanks a lot for taking my second question; Margareth, it's to you. You mentioned the cost reductions on Johan Castberg. Is it possible to say, give some indication of the NPV break-even oil price on Johan Castberg after the cost improvements, please?

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

No, I don't think we will reveal the break-even price on the Castberg. Of course, you know we are working on two different concepts. And we have decided to delay the concept selection and we are working, and fully committed, to reduce the costs even further.

Eldar Saetre - Statoil ASA - President and CEO

This is a project that really deserves to become as good as it can get. So, again, profitability is more important than timing.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

One thing I'll say is that management will be around for some questions after we're finished. I'm going to take the last question now.

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Hamish Clegg - BofA Merrill Lynch - Analyst

Hamish Clegg, Bank of America. Thanks very much. Since we're allowed one last question, one of the things I notice on your flexibility chart on CapEx is that Troll 2040 is one of the projects on that list that you could potentially strip out if the macro environment deemed it.

I read this morning, in one of the industry journals, that the Norwegian Government was putting pressure on you to actually go ahead and sign that sign project, which has a 12% IRR, relative to your 24% IRR hurdle. How should we think about these sorts of news articles that are coming out?

Eldar Saetre - Statoil ASA - President and CEO

Okay, again, it's probably Snorre 2040 that you're talking about and not Troll.

Hamish Clegg - BofA Merrill Lynch - Analyst

Sorry, Snorre 2040, yes.

Eldar Saetre - Statoil ASA - President and CEO

That's a project that we've been working on for some time. It's a very important project. It has to do with the resources in the ground, and it has to do with timing, so timing is setting some constraints on that project.

But in the end, it has to have the profitability and robustness that is needed. So that's what really we are working on. We have put out very good people into this, really to make the best effort to take down the cost and come up with a solution that actually can make this project fly.

So it's a high priority project, it has to do with resources, and from that respect I can obviously see why authorities would like this to move forward. But still, I'm running a business, so it has to have the value creation and the met the hurdles that we have for decision making. And I will not comment on percentages in that respect.

Margareth Ovrum - Statoil ASA - EVP, Technology, Projects and Drilling

I think it has to be improved quite significantly, both on the drilling side, as well as on the facilities side, and this is what we are working on.

Peter Hutton Statoil ASA - SVP and Head of Investor Relations

Ladies and gentlemen, thanks very much for the questions. I'd just like to ask Eldar to round us off for the end of the presentation.

Eldar Saetre - Statoil ASA - President and CEO

Well, I'll be very brief. You have been here quite some time now, so I'm sure you would like to head back, and I would, too.

It's been a busy week, I have to say, a fantastic week. And it was a true pleasure for me to sign in on Wednesday, but it has also been a true pleasure to be here today. I have been really looking forward to this day, and it actually gives me as much energy as I was hoping for.

I'm now eager, as Margareth said, to get back to your people, and I'll do that. But I spend one day to relax tomorrow, and then it is back in business. And on Tuesday, actually, two days, I'm gathering the top 150 leaders in Statoil, so I really look forward to that, to set the scene, communicate what we have told you, and really bring along the whole team and our leadership on this -- on the journey; and I'm sure they will buy into it you know with full force.

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So, I thank you all for coming. I really appreciate that, the engagement and the good questions that you have put forward to us. I hope we have accommodated this in a good way and presented you with some good answers.

At least, we feel we have a strong story, and have what it takes to tackle the challenging environment that we are looking at for the moment.

So, have a nice weekend. Thank you. And see you again.

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