Q2 2017 Statoil ASA Earnings Call

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Statoil ASA:

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Peter Hutton Statoil ASA - SVP of IR
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PRESENTATION

Peter Hutton - Statoil ASA - SVP of IR

Good morning, and welcome, everybody, to the Statoil analyst call for the second quarter 2017. We appreciate that this is an especially busy day for reporting, and we brought forward our call earlier than previous quarters, mainly to help people's busy scheduling today. We expect this call to run for a maximum of about an hour, including questions of around 45 minutes.

I'm Peter Hutton, Head of Investor Relations at Statoil. With me, as normal, I have Hans Jakob Hegge, CFO. He will run through the results and then take questions. And we're also joined by Svein Skeie, Head of Performance Management; and Ørjan Kvelvane, Head of Accounting.

With that, we'll go straight to business, and I'll ask Hans Jakob to start the presentation. Thank you.

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO

Thank you, Peter, and welcome to you all. I'm pleased to present another strong quarter from Statoil. Adjusted earnings before tax was $3 billion and the IFRS result was $3.2 billion before tax. A positive results on a cash flow of $9 billion after tax. We have reduced gearing by 8 percentage points year-to-date. I will revert to the results in a moment.
The picture on the front page is of Gina Krog, which started to produce this quarter. We have used the downturn to systematically improve our project portfolio. We are working together with our suppliers to realize several large projects. Johan Sverdrup is on schedule, and will be a giant on a global scale. Aasta Hansteen is assembled and ready for field commissioning to start production next year. Njord A is being refurbished to produce for another 20 years.

Very good progress is also being made on the rest of the portfolio. In addition, 3 plants for development were approved, and we submitted the plan for development Snefrid Nord. And we are moving forward with our exploration efforts. Our campaign in the Barents Sea has given us an oil discovery in the Kayak well. This is close to Johan Castberg field. We also had a small discovery in the Blåmann prospect. We are currently drilling the Gemini North prospect before we drill Korpfjell and Koigen Central. These are interesting prospects that may open new areas in the Barents Sea.

On the macro, we still see volatility in the gas and oil prices. The uncertainty is especially linked to the adherence to production curtailments among the OPEC members as well as production of unconventional resources in the U.S. However, our fundamental view remains unchanged as we see drivers for further oil prices going forward. Demand for oil continues to grow, and the low investment levels and new projects during the downturn is expected to have an impact on the supply side, leading to a more balanced oil market.

The second quarter results have 3 main characteristics. Firstly, they deliver a strong cash flow and a solid result. We have reduced our net debt ratio to 27.5%, down from 35.6% at the end of 2016. Secondly, we continue to have strong operational performance with high regularity and value-adding production. And thirdly, we have high project activity with solid deliveries and we continued to see the results of our efficiency work. We have strengthened our financial position.

Our dividend policy remains firm. The board has decided to maintain the dividend of $0.2201 per share and will also, this quarter, offer a scrip option with a 5% discount. Just to remind you, the scrip option was announced in February 2016 for a 2-year period ending third quarter this year.

Then on to the results more in detail. We had adjusted earnings before tax of $3 billion compared to $913 million the same period last year. Strong operational performance with high regularity and high production contributed to the solid result, as well as higher prices for oil and gas. The reversal of a provision related to profit oil in Angola contributed positively to the adjusted result by $754 million. Adjusted earnings after tax was $1.3 billion compared to a loss of $28 million in the same quarter last year.

The tax rate in the quarter was 57.4%. The low tax rate was mainly a result of the reversal of the provision in Angola. This was partly offset by a higher-than-normal tax rate in MMP due to earnings composition. We realized an oil price of $44.5 per barrel, up from $39.4 the same period last year. Realized gas prices were higher both in Europe and North America by 3% and 65%, respectively, compared to the second quarter last year. We continue to drive down costs, with underlying operating and SG&A costs down 8% per barrel compared to the same period 2016.

Then let's go to the segments. Development and Production Norway delivered adjusted earnings before tax of $1.9 billion, up from $1.2 billion in the same period last year. We continue to see the effort of the continuous improvement work, and the production efficiency the first 6 months is record high. Underlying improvement in OpEx and SG&A per barrel was 11%, measured in NOK year-on-year. Realized liquids prices were 9% higher, and the internal gas transfer price was 36% higher. Liquids production increased by 1%. Gas production increased by 6% year-on-year. The production was the highest second quarter since 2012.
Development and Production International delivered a result before tax of $876 million. This includes the effect of the reversal of the Angolan provision of $754 million compared to a loss of $506 million in the same period last year. The underlying production growth in the International business was 3%. Cash flow from the International operations amounted to around $19 per barrel after tax. This is at the same level as in our Norwegian upstream business.

Marketing, Midstream and Processing delivered a pretax result of $292 million compared to $329 million in the second quarter 2016. The main reason for the lower result was weaker contribution from our liquids trading. Good margins and high regulatory at our onshore plants contributed positively to the results.

Production during the quarter was 1,996,000 barrels per day. Despite high turnaround activity, we experienced high regularity and a strong underlying production growth of 3% year-on-year. Ramp-up from fields like Ivar Aasen and Goliat on the NCS, and Jack/St. Malo and Corrib in our International business contributed positively to the growth. In addition, we produced higher gas volumes as part of our strategy to move gas to take advantage of periods with higher prices. This was 41,000 barrels per day higher than a year ago.

We are in a robust financial position. As a result of the strong cash flow from operations of $10.8 billion for the first half of this year, the net debt ratio is now at 27.5%, down from 35.6% at the end of last year. We have paid $1.7 billion in taxes, including 3 NCS tax installments; $0.7 billion in dividends, having paid the cash portion of 2 dividend payments; and we have received $0.4 billion from sale of assets.

Capital investments for the first 6 months were $4.7 billion. This sums up with a net positive cash flow of $4 billion at the end of the first half of 2017. I would like to remind you that we have 3 NCS tax installments in the second half of this year, each at roughly NOK 9.5 billion, reflecting the higher commodity prices in 2017.

CapEx is expected to be higher in the second half of the year compared to the first half. This is reflecting the higher activity in the third and the fourth quarter. You may also recall that we have entered an agreement to acquire a further 10% of the BMS-8 license in Brazil, and we expect to close this transaction during the second half of 2017.

I’m rounding off the presentation with our guiding. On the production guidance, we are now saying around 5% organic growth, slightly tighter than the 4% to 5% we gave at our CMU in February. The expected annual production growth from 2016 to 2020 remains unchanged at around 3%. We still expect an additional $1 billion in annual cost improvements in 2017. This is in addition to the $3.2 billion achieved by the end of 2016.

Our CapEx guiding remains unchanged at around $11 billion. We are reducing our exploration spend from $1.5 billion to $1.3 billion due to strict prioritization and efficiency in our drilling operations.

With that, I leave it to Peter to take us to the questions.

Peter Hutton - Statoil ASA - SVP of IR
Thanks, Hans Jakob. Yes, we will indeed now move to the Q&A. (Operator Instructions) And with that, I'll ask the operator to open the polling and confirm the instructions. Thank you.
**QUESTIONS AND ANSWERS**

*Operator: (Operator Instructions) We’ll now go to John Olaisen calling in from ABG.*

**John A. Schj. Olaisen - ABG Sundal Collier Holding ASA, Research Division - Co-Head of Global Research**

I have a question on your reduced exploration guidance. What’s the reason for the lower exploration guidance? Is it cost deflation? Maybe just slipping of wells such -- if you could highlight a little bit -- talk a little bit more about that, please.

**Hans Jakob Hegge - Statoil ASA - Executive VP & CFO**

So the main reason is efficiency gains. We now drill wells 69% more meters per day. We have 42% less time on each well and a 35% less cost per well, so the efficiency improvements is the main explanation, but also strict prioritization. So we started with a guiding on 1.5 taken down to 1.3. We said 30 to 35 wells. We are now more specific on the number of 30 wells. And again, the efficiency gains are -- is the main explanation.

**John A. Schj. Olaisen - ABG Sundal Collier Holding ASA, Research Division - Co-Head of Global Research**

Quickly, a follow-up. The 5 wells that you have excluded, where are those? Which wells have you excluded?

**Hans Jakob Hegge - Statoil ASA - Executive VP & CFO**

We are not providing any detailed information on that. The reason is this is a continuous exercise of optimizing commercially. We go through the plans, we rank them and we do strict prioritization as part of the discipline and as part of the natural development.

*Operator: We'll now go to Halvor Nygård calling in from SEB.*

**Halvor Strand Nygård - SEB, Research Division - Analyst**

So organic CapEx was $4.5 billion in the first half of the year, and you said that CapEx would be pretty much back-end loaded with higher activity. Can you elaborate a bit on what drives the activity increase in the second half of the year? And also the second question, with the improvement now in cash flows and consequently lower gearing levels, can you discuss or consider moving back to full cash dividend or maybe buying back some of the scrip shares?

**Hans Jakob Hegge - Statoil ASA - Executive VP & CFO**

So we maintained the guiding on CapEx at around 11 for the year due to the efficiency gains and the strict prioritization. We have lower CapEx in the first half. It’s lower facility costs to drilling, marine operations, but also phasing of activities. And in the second half, we increased the spending due to Aasta Hansteen that starts drilling. We have the Blåmann drilling. We have Peregrino II moving to fabrication. Mariner heavy lift operations. Activity going on in the Hywind, Kharyaga, Terra Nova and also the U.S. onshore part. We expect some ramp-up after the somewhat low activity, for instance, in Bakken during winter operations, so it is a higher activity level. On the improved cash flow in the quarter, I mean, $9 billion positive after tax, $4 billion after investments and dividend, and the first half is a strong -- is based on the strong operating momentum. In terms of priorities, we remain firm. It’s strict priorities and no changes to that. The financial framework is still the same. It's consistency.

**Halvor Strand Nygård - SEB, Research Division - Analyst**

Okay. But you’re not thinking of a cash dividend or buying back shares that you have issued during the scrip program?
Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Well, remember, when we introduced the scrip program, we said clearly this is a 2-year program. It's planned to end third quarter this year and we have no plans to extend. And we still have a buyback as part of our toolbox when we have excess cash. So, no news around the scrip or the framework.

Operator: We will now go to Teodor Sveen-Nilsen calling in from SB1 Markets.

Teodor Sveen-Nilsen
One question on cash flow and gearing ratio. Really impressive that you reduced gearing so much over the past 2 quarters. So I just wonder given the fact that you're actually willing a little bit more in the second half than in first half of the year, how much should we expect the gearing ratio to decline towards the year assuming the same oil prices we have year-to-date? And second question, just a little follow-up on the U.S. onshore ramp that you expect. Could you quantify that a little bit more? Which areas do you plan to add rigs and how many?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Okay. On the first one then, you asked for a decline in the gearing. I didn't say that, though, Teodor. But I'm, of course, pleased with the development that we have seen, 8 percentage points year-to-date due to strong results and a very solid cash flow. Going forward, on the gearing, well, the basis is the good cash flow and the strong operations and the continued focus on efficiency. But as I said, also higher CapEx, project activity picking up in the second half and volatility in prices impact, also commercial decisions. Remember, in the past, we have had an increase in the gearing due to also commercial decisions to have more volumes in transit in our MMP business. On the second half, we have 3 NCS tax installments of NOK 9.5 billion each. We have the 10% increase in the Carcará discovery and the closing of that transaction. But most important for me, I mean, we continue to invest in a world-class project portfolio with a breakeven of USD 27 per barrel. On the U.S. onshore ramp-up areas and activity, the starting point is that we continue to look closely at economics before we raise activity. We have 5 operated rigs and one completion crew in each basin. And Bakken added a second completion crew in July, recovery from the winter season, and we expect a slightly increase in Bakken and Utica. The production onshore is reduced year-on-year, and still it's increased quarter-on-quarter. It's mainly Bakken. And going forward, we will assess that, look closely at the economics before we raise the activity.

Peter Hutton - Statoil ASA - SVP of IR
Ladies and gentlemen, I'd just like to enter the call to just make people aware of the fact that we have a -- appear to have a connection problem. And I know that there a lot of analysts waiting to call from international calls, and our operators are trying to access those. At the moment, we are on local calls from Norwegian numbers only, which is clearly not what we would normally do on this event. We’re trying to work this out. We’ll continue with the local callers. (Operator Instructions) We will do our best to get through to everybody. If we are unable to, for a technical fault, we will follow-up from Investor Relations and any direct things that we need to do with Hans Jakob. So don't fret, we’re trying to sort it out, but we will continue to do so after the next question. Thank you.

Operator: (Operator Instructions) And we will now go to Mr. Anders Holte with Danske Bank.

Anders Torgrim Holte - Danske Bank Markets Equity Research - Analyst
Two questions from my side. One of them is related to the CapEx activity or the activity increase for the next 6 months. Investors have been waiting in between what's to be spent in Norway and also what is to go towards the International division? And then secondly, it's a bit unrelated, but on to the Kayak discovery that you made in the Barents Sea. Although the size is a bit from the low side,
does that still give you the confidence that that concept is indeed working? And are you almost sort of upside that you see in the back of the Kayak discovery?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So let me start with the Kayak discovery. I mean, we had started the year quite good actually. I mean, we have 9 out of 14 wells in discovery, so it’s quite a good start. On Kayak, we have 25 million to 50 million barrels of oil potentially being added to the Castberg development. Remember, we have the investment decision coming up later this year for Castberg. So Kayak is still relatively small, but could be important for Castberg. On the CapEx activity on the Norwegian versus the International, I mean, I mentioned several examples. The main point is, of course, that we maintain around $11 billion because we have a high-quality projects that we invest in. And I’ll mention a few examples, Agbami drilling, I mentioned the Peregrino II. Moving into the fabrication, Mariner heavy lift operations. All the International examples, Kharyaga, Terra Nova, and the U.S. onshore as International. In Norway, we have the giant Johan Sverdrup. We’re halfway through to maturing that one. The drilling activity at Aasta Hansteen are examples. So quite a lot of activity going on at the moment and even higher in the second half.

Peter Hutton - Statoil ASA - SVP of IR
Okay. Can we move to the next question, which I understand comes from Oswald Clint.

Operator: Just one moment, sir. (Operator Instructions)

Oswald C. Clint - Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst
I really wanted a bit of an update on the U.S. breakeven reduction strategy that’s getting towards $50 per barrel by 2018. And I know we’re halfway through the year here. Is there any chance we could just see how that part of that strategy is unfolding, please? And then just secondly on the actual results, and I wonder if you could quantify or talk about the recurrence of the trading impacts in the MMP business on the liquids trading? Plus, the U.S. gas trading seems to be some sequential negative impacts there. If you could quantify them, please.

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So we are progressing well on the 90 to 50 journey. We have a ramp-up of valuable GoM barrels as well as the Bakken, as I mentioned the improving cash margins towards the target of $12.50 per barrel in ’18. Costs continue to trend down despite these barrels being more costly than the NGL and gas volumes. On the onshore part, we are investing in wells with competitive breakevens, more than 900 operated wells in our yet-to-drill portfolio across the 3 areas have a breakeven prices below 50 and about half of those below 40. So on the U.S. gas liquids trading, I mean, the MMP result is -- it will vary quarter-on-quarter. After several quarters in the high end, we are having a relatively lower result this time in the first quarter. We have some -- benefiting from African volumes to Asia. And we also experienced a sharp drop towards the end mark-to-market, but we are still within the guiding of 250 to 500. And remember, in the DPI result, we also had an increase in the gas prices of 65% contributing to the DPI result.

Operator: We’ll now go to Hamish Clegg calling in from Bank of America Merrill Lynch.

Hamish William George Clegg - BofA Merrill Lynch, Research Division - Director and Senior Analyst
Could you confirm precisely how much CapEx is dollar on noise in kroner related? I know this is something we ask you every other year or so when there is the big move. But given the big noise in kroner move recently, it would be interesting to know how much that would affect your CapEx and OpEx individually. And if I’m allowed, could you give me the rough split of projects or regions contributing to the increase in your volume targets the top end of your range?
Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So D&P International this all in dollars and Norwegian business is a mix, it’s variable, so we don’t provide the great level of detail on this one. And your second question, could you repeat that?

Hamish William George Clegg - BoA Merrill Lynch, Research Division - Director and Senior Analyst
Just in terms of your volumes, you are graded to the top end of your volume growth range. I wonder what drove that increase?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Yes. So this is the highest production since the second quarter 2012, for any second quarter, despite the bigger turnaround impact, which is bigger than last year. And we have really good regulatory in operations with a record high production efficiency year-to-date on the Norwegian continental shelf. Contributions from field like Goliat; Ivar Aasen adds 30,000 barrels year-on-year. Also, the flex gas, Trolls, Oseberg increased year-on-year about 40,000 barrels versus the second quarter last year, and this is due to the higher prices in the summer. So all these items more than compensated for the fields ceasing production and decline.

Operator: We’ll now go to Jon Rigby calling in from UBS.

Jonathon Rigby - UBS Investment Bank, Research Division - MD, Head of Oil Research, and Lead Analyst
Can I ask, firstly, on CapEx. Can you just go back and just define what you term as organic CapEx and what is taking to achieve? Because, obviously, alongside that you’re making investments into medium- and longer-term opportunities as you’re doing in Brazil. And so are they supplemental to an organic CapEx level designed to sustain and grow your business? Or should we be thinking about inorganic or the tactical inorganic investments to the regular and supplemental investment alongside what you determine is your organic CapEx? And just, actually, can I just add another question, if that's possible. Rough storage, gas storage in the U.K., which now appears to be potentially being closed down. Are there any strategic responses that you can develop to take advantage of that opportunity because it would seem to me that you are the obvious source of swing gas into the U.K.?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So first, on the organic CapEx in the second quarter is $2.3 billion. This is excluding acquisitions, capital expenses and other investments. The key inorganic investments in the second quarter has been the Cat J rigs on the NCS, exploration signature bonuses. And if I got your questions right, investments in 2017 include capitalized exploration, investments to improve oil recovery and major development projects like Sverdrup; Gina Krog that had just started to produce; Aasta; Mariner; and the U.S. onshore part. On the Rough storage, could you take advantage of it? I mean, it's one of the elements that adds to the assessment of the gas markets. I mean, in the quarter, we saw the EU gas prices up 15%. I see the Rough storage as a part of some -- maybe some bullish price signals for the EU gas for the rest of the year. Low storage levels, the outage of Rough and the Groningen cap are examples of these signals. So the beauty with our flex gas is really that we can, as we did in the quarter, produce more when the prices are higher.

Jonathon Rigby - UBS Investment Bank, Research Division - MD, Head of Oil Research, and Lead Analyst
Okay. Just going back on my CapEx question, I probably wasn't clear. What I meant to say was, you set out an organic CapEx budget of $11 billion. But alongside that, you've made an investment into Carcará -- or 2 investments into Carcará. So what I'm trying to account is how should we think of
your investment levels in terms of a sustaining level of spend going forward. Should we think of it based off the $11 billion? Or should we assume that it’s based off the $11 billion plus, that continuing level of inorganic spend to sustain the business?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So the short answer to that is you should look at around $11 billion as a sustainable level.

Jonathon Rigby - UBS Investment Bank, Research Division - MD, Head of Oil Research, and Lead Analyst
Right. And the rest is optionality?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Yes.

Operator

Christyan Fawzi Malek - JP Morgan Chase & Co, Research Division - MD and Head of the EMEA Oil and Gas Equity Research
First question is just around -- just to be super clear around your capital framework. If oil prices are in the 40 to 50 range in the second half, will you renew the scrip or will you still take it off? I want to understand just to what extent does oil price influence that decision. And the second question coming back on CapEx. You mentioned $11 billion being the sort of the steady run rate, is there flex to lower that number, again, if all prices are lower this year?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
On the scrip, when we set out the program, we made it clear that it's for 2 years. No plans to further extend; ending third quarter this year, and no change in the plans or communication related to that. On the CapEx, $11 billion, it is related to a world-class project portfolio of average breakeven $27 going forward. I think it's the right thing to continue to invest in these high-quality projects. At the same time, you see the clear effect of efficiency gains, and that's why we continue around $11 billion. We think that's a sustained level going forward.

Operator: We'll now go to Mehdi Ennebati calling in from Societe Generale.

Mehdi Ennebati - Societe Generale Cross Asset Research - Equity Analyst
I will ask 2 questions. The first question one regarding the tax payments. You've highlighted that tax installments in Norway reached almost double from H1 to H2. I wanted to know what will be the trend regarding the cash tax payment abroad? Should we expect a material increase as well after it remained very low as this has been the case since beginning 2016? And second question on your exploration budget that you've just lowered. Why don't you want to take advantage from your strong free cash flow generation and the low cost environment to explore more, much more than your peers and try to fill in the gap between your reserve life and the sector average? Should we consider that you will prioritize with that acquisition and the exploration in the current environment?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So on the exploration first, I think we are doing more than our peers. $1.3 billion is the result of significant efficiency gains. It's also a result of strict prioritization. A program of 30 wells this year is quite substantial. It's also an element of replenishment of the portfolio that we actually have used the downturn to acquire cheap seismic and getting access to new potential acreage. So we are quite active on the exploration side. It has been and will be in the future an important thing for us. It's a
source to create substantial value. And in relative terms, I think we are more active than our peers. When it comes to the tax, as I said, we have 3 NCS tax installments in the second half, NOK 9.5 billion each. Remember that we have paid taxes, so far, this year based on last year’s prices. As we move along, we’ll start paying taxes based on this year’s relatively higher prices, so it will be a bit higher. So this quarter, we had a relatively low tax rate of 57.4% that was also linked to the reversion on the provision in Angola that impacted the DPI tax.

Mehdi Ennebati - Societe Generale Cross Asset Research - Equity Analyst
But just to come back to that, should we -- because the tax installment is only for the NCS.

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Yes.

Christyan Fawzi Malek - JP Morgan Chase & Co, Research Division - MD and Head of the EMEA Oil and Gas Equity Research
Should we consider that the tax that you pay abroad outside Norway will increase in a material way as well?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
We haven't changed our guiding. For the International, it's 50% to 55% short term and more around 50% or in the lower end in a couple of years. In our Midstream business, it's the range of 50% to 60%, and in DPN around 70%. So on group level an average around 70%, and we haven't changed that. But lower prices increase the tax rate, and over time, we should expect a fall in tax rate particularly if prices recover.

Operator: We will now take questions from Biraj Borkhataria calling in from RBC.

Biraj Borkhataria - RBC Capital Markets, LLC, Research Division - Analyst
Apologies to make you repeat yourself, but I didn’t quite hear the answer. At the group level, you paid $1.7 billion in cash taxes for the first half of the year. What do you expect to pay in the second half of the year assuming the current environment?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So 3 NCS tax installments or NOK 9.5 billion each is for the second half, and that's the level of detail we actually provide today on the taxes for the second half. And then, as I said, the guiding on the International and the MMP. So, Svein, you want to add something. We have Svein Skeie.

Svein Skeie - Statoil ASA - SVP for Performance Management and Analysis
Just to add a bit on the NCS. So for the first half, you paid 1.4 and, as Hans Jakob is saying, the NOK 9.5 billion each installment in the second half. In the International, that is more linked then to the results that you're obtaining during the quarter, so you don't have the similar deferral there and as you have in the Norwegian taxes.

Operator: We'll now be going to Mr. Rob West calling in from Redburn.

Robert West - Redburn (Europe) Limited, Research Division - Partner of Oil and Gas Research
My first one is on the $11 billion sustainable CapEx number that you mentioned. When you say that's the sustainable number, what kind of growth should I think about getting for that number? Is that the number to run stable with 0% growth? Or is that, your 3% growth rate, likely to be continued at that level of investment? That's question one. Question two is around Castberg, which I know is a project that you follow very closely before becoming CFO. The question is I think that's
going through another round of bidding this summer in some of the EPC work. And I was wondering is there anything you really need to see coming out of that bid round in order to move forward with the sanction in the second half of the year or later in the year. And so specifically, some of these bids have been coming in lower and lower from the data I can see. And I wonder with the guidance you had previously, were you assuming some kind of cost reduction would be achieved in some of the big EPC contracts there?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Thank you, Rob, for your questions. Around $11 billion sustainable CapEx and what kind of growth. From 2016 to 2020, we guide on an average production growth on an annual basis of 3% based on the project portfolio that we have. So that's the short answer to that one. On Castberg, yes, it's up for FID towards the end of this year. In order to have confirmation on numbers, we invited suppliers to give numbers, as you said, and we have a breakeven below 35. No update on that figure as of today. You should expect the confirmation of costs and breakeven levels when we do the FID that we plan to do later this year. So the only news related to Castberg is it's progressing according to plan, and it's exciting to see the Kayak discovery potentially adding a 25 million to 50 million extra barrels.

Robert West - Redburn (Europe) Limited, Research Division - Partner of Oil and Gas Research
That's great. If I could have one follow-up, it would be on the 3% growth number. I'm worried about seeing the 17 to 20 growth number. But to some extent, the CapEx you're funding now is also going to be contributing to growth after 2020 given the typical lead time to projects. So should I think of that $11 billion as funding a 3% growth rate after 2020 as well? Just as my base case assumption once you get past these next couple of years. So if there's anything you can say about that?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So 3% to 2020, but also production beyond -- not quantified. But remember, we have Johan Sverdrup coming in on-stream late 2019. We have Aasta Hansteen next year. We just started with 7 hours into the quarter of Gina Krog. That will be more visible in the third quarter and the coming quarters. We have the Ivar Aasen, Goliat, the ramp-ups from GoM. So several elements adding to production growth in near term. You also have the flexibility linked to the U.S. onshore business, so several elements adding to the short- and midterm. And longer term, you're right, I mean, the project portfolio that we presented is still there for sanctioning and adding addition volume. So pretty robust picture that we present and maintain as we did on the Capital Markets update.

Operator: We will now go to Anish Kapadia calling in from TPH.

I have a couple of questions. The first one was on the cash flow that we've seen so far this year and expectations for the rest of the year. So you generated about $10 billion of cash flow from operations in the first half of 2017. You're -- at the Capital Markets Day, your guidance implied about $13 billion of cash flow in a $50 oil price environment. So given that very strong cash flow generation in the first half of the year, is that $13 billion of cash flow at $50 still valid? Or is there the potential to significantly exceed that, given what you've done year-to-date? And then the second one was, I just wanted to get a little bit of an update on your plans in the Northeast. It seems like there has been more focused in the Northeast on the Utica side of your assets rather than the more conventional Marcellus within the Appalachian region. So I'm just wondering if you could talk about where you're allocating the capital and the relative economics there?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
So on the cash flow and in the quarter was $9 billion positive after tax and $4 billion after investments and the dividend in the first half. Based on the continued strong operating momentum, remember, the record-high production efficiency on the NCS. In the second half, I mentioned the 3 NCS tax installments, so NOK 9.5 each higher CapEx. It's still valid, the $50 guiding that we gave on the Capital Markets update. We said we will be cash flow neutral and positive at $50 in 2017. That is still the case. In the first half, we benefited from lower tax payments on the NCS. If we apply the effective tax rate to the earnings in the period, we have reduced the free cash flow by around $2 billion. Still, we are free cash flow positive at $50 in the first half. So going forward, it's still valid, strong focus on efficiency, maintaining the good operating momentum, continuing to invest and of course then, also taking into account the closing of Carcará and the upcoming NCS tax installments. On the U.S. activity, we are in what we think is 3 of the most prolific basins in the U.S.: Eagle Ford, Bakken and Marcellus. Our #1 priority is, of course, safe and profitable operations in the assets that we have. And as I said, we will have a slightly higher activity in Utica and Bakken in the second half. We also want to highlight that we have 900 wells with a breakeven of 50 and below, and half of them is 40 or below. So we have significant flexibility and we continue to evaluate the options before we make decisions, and we will come back to the activity level in the third quarter.

Operator: Does that answer your questions, Mr. Kapadia?


Yes.

Operator: We’ll now go to Tristan de Jerphanion calling in from Kepler.

Tristan de Jerphanion - Kepler Cheuvreux, Research Division - Oil and Gas Equity Analyst

Just a one quick one in Brazil. You announced a further 10% acquisition in BMS-8 a couple of weeks ago. Could you please give us an update on the pending auction on the open acreage next to BMS-8, which is scheduled for this year? And also, assuming that it's getting closer, could you please give us some colors in the $1.25 billion contingent payments to Petrobras and the possible time line for this, please? And also, of course, it applies to the some $190 million owed to QTEP also.

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO

So on Brazil, we invested another 10%, as you said. And we also are looking closely at the upcoming licensing round, so no -- that's for October. We're looking closely at that. The portion of the Carcará fields spans into the open and the unawarded acreage, so this is something we follow closely. As I said, we understand that unawarded acreage is intended to be a part of the bid round later this year, potentially October. And we also look at partners to develop this exciting asset and this is of high priority to us. And specifically, on the $1.25 billion, we made half of the payment at the closing of the deal and the half is contingent later development, so it's not up for this quarter. What's coming in the quarter is closing of the transaction that we just did, but that's a significantly smaller scale.

Tristan de Jerphanion - Kepler Cheuvreux, Research Division - Oil and Gas Equity Analyst

No, no, of course, I'm aware of that. I'm just wondering what the milestones are for the contingent payments and if you have a time line in mind for when that may happen.

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO

So the time line for the Carcará is when we have -- it's 2019, linked to a balancing in the structure, so that's for later. And the recent transaction is in for the third quarter. That's the milestone for that one.
Operator: We’ll now go to Ms. Lydia Rainforth calling in from Barclays.

Lydia Rose Emma Rainforth - Barclays PLC, Research Division - Director and Equity Analyst
Apologies if I missed this earlier. But when you were talking about the high reliability for the business, are you able to actually give us what that operational efficiency number is? How it’s changed over last year? And what do you expect that to over the second half of the year and into 2018?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Sorry, Lydia, could you please repeat your question?

Lydia Rose Emma Rainforth - Barclays PLC, Research Division - Director and Equity Analyst
Yes. So it was just in terms of the record-high reliability and operational efficiency that you were talking about. Are you able to share with us how that’s changed over the last year? What that number actually is at the moment? And how you’d expect it to evolve for the next 12 months?

Hans Jakob Hegge - Statoil ASA - Executive VP & CFO
Yes. So this, of course, very rewarding. It’s a hard work by many people over a long period of time. And remember, when we introduced the production coordinator on the field started to pilot at Oseberg some years back, and these are people that really chase this on a daily basis. Good communication and dialogue between the various professional expertise. It’s a daily hunting of every profitable barrel. It’s an optimization. It’s teamwork. It’s also linked to better planning and executions of maintenance for the intervals. It is also linked to the way we plan and execute maintenance programs. And it is definitely linked to hunting and focus from management on unplanned losses and avoiding that. And the precision level also linked to maintenance stops, because, for instance, Snøhvit, as an example, we have a big maintenance stop this quarter at Snøhvit. It went according to plan and we were able to start the facility on time and that -- without any interruptions in the immediate days following. And this adds, of course, to a better than past performance on the unplanned losses. So this is very systematic work over a long period of time and now paying off. And I have no reason to doubt that we will continue to focus on this as it adds very profitable barrels to our production.

Operator: Thank you very much. As we have no further questions, I would like to turn the call back over to the organizers for any additional closing remarks. Thank you.

Peter Hutton - Statoil ASA - SVP of IR
Thanks, operator, and thanks, Hans Jakob. Apologies for the interruption on the normal service earlier on the call. I'm glad we got it back on track, and I think we got around to everybody's questions. If not, apologies, and we'll cover it directly after the call. Thank you for your patience and your participation and good luck for the rest of the day. Thanks very much.

Operator: Ladies and gentlemen, that will conclude today's conference. Thank you very much for your participation. You may now disconnect. Thank you.