

Annual report 2014 CEO letter

In 2014 we continued to deliver solid operational results. Our production efficiency has improved significantly, we are on track with our improvement programmes and we continued to deliver good safety results. However, the profitability of our industry continues to be challenged and the financial results in 2014 were highly impacted by the fall in oil prices.

Statoil increased the annual equity production to 1.927 million barrels of oil equivalent per day in 2014. The increase was driven by improved production efficiency and start-up of new fields, which represents a growth of 4% from a rebased 2013 level. Going forward, we expect around 2% annual growth in production the coming two years, and 3% annually from 2016 to 2018.

As a result of the European gas price development and outlook for 2014, Statoil decided to defer gas volumes to enhance value. In addition, gas production was impacted by sale of assets and redetermination. Gas production from the Norwegian continental shelf (NCS) decreased by 5% whereas international gas production increased by 3%, resulting in a total decline in produced gas volumes of 3%. For nearly 40 years Statoil has been a reliable supplier of gas to Europe. In the last two years Statoil has further modified its European long-term gas contract portfolio to fit with changes in the European gas market, and has continued to target different market segments. Today, most of our contracts in Europe have moved from oil to gas indexation.

Safe, secure and efficient execution of our operations is the number-one priority for Statoil. In 2014 we continued to progress in our safety performance compared to previous years. Our serious incident frequency (measured as incidents per million hours worked), including our own employees as well as our suppliers' employees, decreased from 0.8 in 2013 to 0.6 in 2014. However, this solid result is overshadowed by two fatalities among our contractor workforce in our US onshore operations.

We have reinforced and will continue to step up our ambitions with regards to our security improvement programme. The security culture of the company is strengthened and measures have been implemented to increase physical security, strengthen information technology security and protection of personnel.

Last year we communicated the launch of a comprehensive efficiency programme to address the fundamental challenge of increasing costs in the oil and gas industry - as well as in Statoil. The progress is on track and we are reporting solid and sustainable improvements. So far we have realised improvements of around USD 600 million.

Statoil's investment programme has been reduced by USD 2 billion from previous guided levels, to USD 18 billion in 2015. The investment programme includes the highly profitable Johan Sverdrup development which was sanctioned in early 2015. Our financial framework is robust—we maintain our financial capacity as well as a solid balance sheet, and we will honour our commitment to our shareholders to provide a competitive direct return on their investment.

Exploration results in the industry were weaker in 2014 compared to previous years. Statoil continues to be among the top exploration companies in the industry and we strengthened our resource base through exploration, adding 540 million barrels of expected resources. The organic reserve replacement ratio was 96%, while the three-year average is 117%.

We continue to optimise our portfolio. In 2014, we announced divestments with net proceeds worth a total of USD 4.3 billion in a challenging market environment. We sold assets and reduced ownership on the NCS, and have agreed to divest the Shah Deniz project in Azerbaijan and the South Caucasus Pipeline.

We take an active and industrial approach to sustainability. To Statoil, sustainability is a business matter where the need to remain a highly competitive company is combined and strengthened by our efforts to accelerate the development of more carbon-efficient solutions to produce energy. We believe that being a trusted company with a long-term social license to operate will enhance future business opportunities. Our commitment to long-term, sustainable growth, in line with the principles of the UN Global Compact, is reflected in our sustainability reporting.

When Helge Lund resigned from his position in October 2014, I acted in the role until I was permanently appointed president and chief executive officer in February 2015.

We enter 2015 with a robust financial position, strong operational performance and good progress on our improvement programmes. We are well prepared to meet the volatility of our markets and despite a demanding situation for the industry. We have the competency, capacity and leadership capabilities necessary to meet the challenges that lie ahead. I am looking forward to further strengthening the company, developing our business and continuing to create shareholder value.

Eldar Sætre
President and Chief Executive Officer