

FINAL TRANSCRIPT

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STO - Q3 2010 Statoil ASA Earnings Presentation & Conference Call

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PRESENTATION

Hilde Nafstad - *Statoil ASA - VP, IR*

Good afternoon, ladies and gentlemen, and welcome to Statoil's third quarter earnings presentation and conference call. My name is Hilde Nafstad, and I am the Head of Investor Relations in Statoil.

Before we start, let me say that there are no fire drills planned today, so in case the fire alarm goes off, you will need to exit through the emergency exits on each side of the room, and continue on towards the same side.

This morning at 730 Central European time, we announced the results for the third quarter of 2010. The press release regarding the results was sent through the wires and through Oslo Stock Exchange. The quarterly report and today's presentation can, as usual, be downloaded from our website, Statoil.com. There is a link directly to the presentation on the front page of Statoil.com.

I will ask you to kindly take special note of the information regarding forward-looking statements, which can be found on the last page of the presentation set. Please note that the question can be posed by means of a telephone. Question cannot be posed directly from the web.

The dial-in numbers for posing questions can be found on the website. The operator of the conference call will explain the procedure for posing questions over the phone, immediately before the Q&A session starts.



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We have our CEO and President Mr. Helge Lund with us here today, and he will give a brief introduction before Statoil's Chief Financial Officer, Mr. Eldar Saetre, will take us through the third quarter earnings presentation. Welcome, Helge.

Helge Lund - Statoil ASA - CEO, President

Thank you, Hilde, and good afternoon, ladies and gentlemen, and thank you for participating at this conference. Let me make a few remarks before I leave the floor to Eldar to take you through the results in more detail.

In Statoil, we have behind us an extraordinary quarter, characterized by extensive, but also planned maintenance activities, which have led to low oil and gas production, as you see throughout the quarter.

At the same time, we have strong cash generation. We have financial flexibility, and the cost is under firm control in all business areas, and you have also seen that the HSE results are moving on a positive trend.

Based on our financial flexibility and operational flexibility, we have also had a very active quarter in terms of strengthening and high grading our portfolio. Our field development projects show good progress across the board. New field development decisions have been taken, and we have been-- we are quite active in terms of high grading the portfolio. And there are the listing of the SFR and the acquisition and joint venture at Eagle Ford are the most important step forwards this quarter.

New field developments will, along with the ramp up of fields, generate an additional 350,000 to 400,000 barrels per day in 2012, compared to what you see in 2010. However, this will lead to very limited expected production growth in 2011, due to the phasing of the startup and ramp up of these fields.

Earlier in the year, two well known factors have taken our production downwards in the guided range, namely, the reduction of the production permit of Ormen Lange, and the well incident and drilling challenges at Gullfaks. As you have seen from our announcement this morning, we have now decided to take our 2010 production guiding to 1.9 million barrels per day, and I can understand that some questions are raised regarding why we changed our guiding so late in the year.

However, very recently, two additional factors triggered the adjustment on the production guiding for 2010. After very, very careful considerations, the license groups for two of our big fields, Gullfaks South and Kvitebjorn, very recently decided to perform IOR activities. That will [decrease] (corrected by company after the call) the short term production, but increase the longer term production and value creation.

In addition, it has become clear that the operational problems that have been known for a while, related to a faulty compressor at Kollsnes would have a longer duration and a higher impact than previously known.

These factors, combined with the usual uncertainty regarding gas offtake, led us to conclude that the 2010 production forecast should be reduced to around 1.9 million barrels per day.

And with those words, please, Eldar, I leave it to you to take the audience through a more detailed explanation of the numbers. Thank you.

Eldar Saetre - Statoil ASA - CFO

Well, thank you, Helge, and good afternoon, ladies and gentlemen. As Helge said, this quarter has been characterized by an extensive and very well planned maintenance activities, which has led to a significant reduction in the quarterly volumes, both on the oil and gas side, compared to the same quarter last year.



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Our cash generation and the financial robustness remained solid throughout the quarter. I'll come back to that. All business areas also demonstrate very good cost control, and the HSE results are strong and improving.

This illustration compares our third quarter key earnings figures compared with the same quarter last year, which you can see at the bottom. Our net income has more than doubled, from NOK6.6 billion in 2009, to NOK13.8 billion this quarter, while the net operating income of NOK22.2 billion (sic - see Press Release) is at approximately at the same level as we saw last year.

The NOK1.6 billion of adjustments, net adjustments, is composed of various elements, and the most significant one is reversals, according to the IFRS accounting standards of previous impairments, and also, cost provisions. Also, sale of assets, and some positive impacts, net positive impacts, from derivatives.

Now, these effects were partly, to some extent, countered by an impairment of the well known Corrib gas field in Ireland. This brings the adjusted earnings down to NOK26.7 billion, which is compared to NOK31.1 billion in the same quarter last year.

The reported tax rate was 60.9%. After these adjustments that I talked about, for the effects of tax on infrequent items, and also, net financial items, our effective tax rate on the adjusted earnings amounts to 68%, which is slightly below our guidance of around 70%. This reduction in the tax rate is mainly driven by a relatively higher income outside of the Norwegian continental shelf, compared to income on the Norwegian continental shelf.

Adjusted earnings after tax were NOK8.5 billion, versus NOK9.2 billion in the third quarter last year.

So let me now take a look at the cash flows. The cash generation from underlying operations, excluding variations in working capital, remains strong, and amounts to NOK132 billion so far this year. Taxes paid, adds up to NOK57 billion. Recorded gross investments was at NOK58.7 billion, and net investments at NOK54.1 billion. And we paid dividends in the second quarter of NOK19 billion, which was related to 2009, and was in accordance with our dividend policy.

Net debt to capital employed was 26% reported, and 28% when we adjust for the tax payment, which is not synchronized to our earnings. And this is in line with our expectations.

Let me now turn to the production figures. Here, you can see a broad categorization of the changes in this quarter's production volumes, compared with the same quarter last year to the left. And the reduction is around 17%, and we are talking about equity production, and this is in line with our and with management's expectations.

Firstly, we have performed extensive turnaround, planned turnaround activities on our liquids fields this quarter, with a total impact of more than 100,000 barrels per day, and an increased impact of almost 60,000 barrels per day compared to last year. And typically, normally, these turnaround activities during the summer season is much more evenly spread between the second and the third quarter than we have seen in this quarter with a massive portion of the seasonal maintenance.

In addition, this quarter, we have also performed extensive maintenance activities at our gas processing facilities. And that includes both Karsto, Kollsnes, and VestProcess. There are major maintenance activities, shutdowns, turnarounds, at Karsto typically every sixth year, and the last one was in 2003. And this year, this maintenance activity, which took place and which lasted for three weeks, was also combined with more comprehensive maintenance at the other processing facilities, for instance, two weeks' shutdown at Kollsnes.

This has resulted in several of our main gas fields holding back production, or performing planned maintenance in line with the scheduled downtime of the processing facilities. And the combined effect of this maintenance, from this gas related maintenance, is more than 90,000 barrels per day, compared to the third quarter last year.



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For commercial reasons, we do not guide in detail on the planned maintenance effects on our NCS gas fields, although we recognize that this might lead to some challenges when estimating the gas production from the outside. However, this effect is as planned, and it's included in our annual production guidance.

Secondly, and as we have previously guided, we have a natural decline rate on the overall mature part of our portfolio of around 5%, combining oil and gas fields. In this period, I could highlight the significant decline in the tail end of our Gulf of Mexico gas assets like Q Gas, Spiderman and San Jacinto of around a combined 15,000 barrels per day. And in fact, we do not expect any further production from the Q and the San Jacinto fields.

The overall decline this quarter, compared to last year, is estimated to around 100,000 barrels per day. And this was only to a limited extent offset by startup of new capacity, the Morvin field, and ramp up also on Tyrihans and Marcellus, compared to last year.

On top of the natural decline, we have had some negative impacts related to drilling of wells on Gullfaks. This was partly caused by the incident that you know about, at the Gullfaks, the C6 well in May, which led to a shut-in of the whole platform for two months. And that extended into July.

Gullfaks also experienced problems with the new built rig, the Deepsea Atlantic, resulting in delayed drilling program, and we have just recently secured additional rig capacity for 2011.

In addition, we have made a reallocation of NCS gas volumes of 20,000 barrels per day, between the second and the third quarter, leading to a decrease in the third quarter reported volumes.

Lastly, the expected higher level of the Ormen Lange production permit was not granted by the authorities, and therefore, bringing the production in the third quarter down by approximately 30,000 barrels per day, partly also in order to repay the higher off take that we have taken in the previous quarter of the gas year.

The lower than expected production permit will also run through the 2010 gas year, which started October this year, and will thereby also impact next year's production.

Then, I will briefly comment on the adjusted earnings per each of our business areas.

We still show robust financial performance despite the lower production volumes this quarter. A continued strict cost control, as I talked about, also shows good results within all business areas, as you can see from both our operating costs and our SG&A cost developments.

E&P Norway's adjusted earnings was NOK21.7 billion, which is down 14% from the third quarter last year. And the main reason was the significant reduction in produced volumes. This effect was partially offset by 14% higher prices on both oil and gas. Exploration expenses and operating expenses were roughly at the same level as we saw in the same quarter last year.

International E&P's adjusted earnings decreased by NOK0.3 billion, compared to last year. And the entitlement production was around 36,000 barrels per day lower, while equity production was down around 5% or approximately 25,000 barrels per day.

The main reason was decline, in particular, a sharp reduction in production from the Independence Hub that I just mentioned, due to water breakthrough. In addition, we have slightly higher maintenance on the international assets, and very limited contribution from ramp up of new fields, basically from the Marcellus gas production.

Adjusted exploration expenses increased by NOK1.4 billion, to a total of NOK2.7 billion outside of the Norwegian continental shelf, and this increase is mainly due to lower capitalization and more being expensed, which has been capitalized in previous periods.



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Operating expenses are approximately at the same level, while SG&A and depreciation are significantly down compared to last year.

Natural Gas, adjusted results for NOK2.1 billion, compared to NOK3.3 billion last year. And the reduction was mainly caused by lower equity volumes from the Norwegian continental shelf, which directly affected both the results from our processing and transportation business by NOK0.3 billion, and our marketing and trading contribution by almost NOK1 billion, deriving both from lower scale due to the volumes, and lower flexibility in the trading activities also from the lower volumes.

Finally, Manufacturing and Marketing's adjusted third quarter earnings were NOK0.9 billion, which is up from almost zero last year. And the improved results were reflected in, actually, all sub-segments, mainly related to improved results from our trading strategies and higher fuel margins and volumes in our Fuel and Retail business.

Our Manufacturing business, mainly the refineries, had slightly negative results also this quarter, due to continued low refinery margins and turnaround at the Mongstad refinery.

In the third quarter, we have also demonstrated very good progress, as mentioned by Helge, in terms of maturing and developing our portfolio for future production and value creation.

As mentioned initially, Gjoa is starting production any day now. Vega and Vega South are on track to start production during the fourth quarter. Our fast track projects on the Norwegian continental shelf are also progressing as planned. And we are very pleased that steam injection now has started at the Leismer demonstration plant in Canada -- started in early September, and actually, one month ahead of schedule. Peregrino, in Brazil, is also on track, with first oil expected towards the end of the first quarter next year.

Several fields have been sanctioned this quarter. In Norway, the development plan has been submitted for Valemon, and the Marulk PDO has been approved by the Parliament. Internationally, both Jack and St. Malo, in the deepwater Gulf of Mexico, and the CLOV development in Block 17 in Angola, has also been sanctioned for development.

Continued business development activities are also important to shape our portfolio, as outlined in our strategy. And this quarter, we have strengthened and diversified our position in North America through the Eagle Ford acquisition of 67,000 net acres to Statoil. This transaction adds at least 550 million barrels to our already substantial North American resource base, and is strengthening our US gas value chain, and adding also liquids to the onshore portfolio in the US.

Our offshore heavy oil growth efforts is further enhanced by the acquisition of additional interests in the Statoil operated Mariner field in the UK.

And lastly, we are very pleased with the capital markets' reception of the new Statoil Fuel and Retail Company, following the listing on the Oslo Stock Exchange on the 22nd of October, and we are convinced that the listing will provide the Company with the necessary framework for future growth and value creation going forward.

Finally, some comments to our guidance. And my first message in this context is, as mentioned by Helge, that we have now concluded on a revised 2010 production guiding of 1.9 million barrels per day of equity production. And this is down from the previous range of 1.925 million to 1.975 million barrels per day, as we have guided.

And there are several contributing factors to this adjustment, and I'll go through them, and the adjustments represent 2.5% adjustment, compared to the midpoint of the previous range.

Two main factors have been communicated earlier, as you have heard about. Firstly, the Ormen Lange licensed partnership had applied for an increase in the production permit for the gas years 2009 and 2010. This was not granted, and resulted in lower production volumes for the year as a whole, and for this quarter, specifically.



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And secondly, the C6 well incident at Gullfaks had a negative impact, combined with a lack of drilling rig capacity at Gullfaks. The initial rig was not able to drill, due to the acquired wells, and the new rig solution is now in place, as I mentioned.

Recently, two additional factors have triggered the adjustment of the production guidance below the previous range. Firstly, after very careful consideration, the relevant license group we are talking about here have now decided that we temporarily have to reduce the production from parts of both the Gullfaks South and the Kvitebjorn fields. And this is in order to maintain the necessary reservoir pressure conditions, so that we can drill new wells into and through these reservoirs in a secure manner, and thereby securing additional IOR volumes, and additional values.

The short term effect of these IOR measures is that we will delay around 15,000 barrels a day of production for this year, and it will also have some impact for 2011.

Secondly, the Kollsnes processing plant experienced some operational problems related to the NGL processing, following the turnaround in September. And it has now been concluded to -- that we have to repair a faulty NGL booster compressor and the driver, the engine. And consequently, the throughput will be negatively affected by this, in this quarter, and the problems are not expected to be solved during the fourth quarter, although we will try to compensate for the issues as much as possible in the way we operate Kollsnes.

These are the factors which, combined with the general uncertainty in relation to gas demand, that has led us to reduce our 2010 production guidance to around 1.9 million barrels per day. And none of these factors that I just talked about, triggering the downward adjustment, had an impact on our third quarter production.

Our ongoing project developments are making good progress. We expect to deliver additional full year -- this is full year average volumes -- of 350,000 to 400,000 barrels per day in 2012, from this portfolio that you can see to the right on this picture, compared to the full year 2010 from the same portfolio.

The new capacity and ramp ups will, however, be skewed towards 2012, leaving us with very limited production growth next year.

We have also made a minor adjustment to our unit production cost guidance for 2010 to reflect the reduced production. And the other guidance that you can see remains as we have previously communicated, and we will come back to further guidance at our fourth quarter and strategy update event on February 9, 2011.

So with these words, I am ready, and we are ready, to take your questions, and I leave the word back to Hilde.

QUESTIONS AND ANSWERS

Hilde Nafstad - Statoil ASA - VP, IR

Thank you very much, Eldar. We will now start the Q&A session. For this session, in addition to Mr. Helge Lund and Mr. Eldar Saetre, we are also joined by our Head of Corporate Accounting, Mr. Kaare Thomsen.

In order to pose questions, you will have to dial in to the phone conference, unless you are in the audience. The dial-in numbers are available on our website, and I will now ask the operator to explain the procedure for posing questions. After that, we will take a few questions from the audience, before we start taking questions over the phone.

But please, operator, if you can explain the procedure for dialing in questions.



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Operator

Thank you. (Operator instructions)

Hilde Nafstad - Statoil ASA - VP, IR

Thank you, operator, and then we'll take a few questions from the audience. I think we have one already. Please state your name and the name of your company before stating the question.

Trond Omdal - Arctic Securities - Analyst

Trond Omdal, Arctic Securities. First question related to the downgrade, as late as three weeks ago. Of course, Rune Bjornson, on your website and the IR confirmed your guiding, was the decision -- you must have known about the decision related to Kvitebjorn and Gullfaks, so that -- one of the outcomes could be lower production. So could you elaborate a little bit about that decision?

The other thing, you say now, very limited production growth next year, but you have had very low gas production this year, a lot of maintenance, so -- and then Troll has been very low. So does that even include the potential of increasing gas production if the market allows it?

Helge Lund - Statoil ASA - CEO, President

I can take the first one, and then maybe, Eldar, you can comment on the latter. As Eldar and I explained, our best assessment at that time, early October, was that we would be within the range despite the challenges with Gullfaks and also the production permit on Ormen Lange, and the decisions on Kvitebjorn and Gullfaks have been taken very recently, and also, matured -- not matured before now.

On top of that, we had the issue on the compressor, on Kollsnes, that is not a new issue in itself, but the assessment was that we would be able to solve it earlier, which has now turned out not to be the case.

Hilde Nafstad - Statoil ASA - VP, IR

Do we have any further questions from the audience?

Eldar Saetre - Statoil ASA - CFO

I would answer the gas, the gas question first. Obviously, we had a significant maintenance activity this quarter, 90,000 barrels per day, as I talked about. Most of that is on the Norwegian continental shelf, and that adds up to, on an annual basis, slightly lower -- definitely lower than that, but it's still a maintenance activity that might be lower next year.

So when we talk about gas and talk about the sort of limited growth going into next year, we -- that kind of statement is taking into consideration all elements of the gas equation, to put it that way, both the flexibility that we have, and in terms of moving volumes forward from a value creation perspective, and also the fact that the production permit on Ormen Lange has not been granted or extended for gas year 2010, which goes into the part of 2011 which is relevant, actually, for this. And also, the maintenance, the planned maintenance on the gas side for next year. So it's all taken into consideration when we talk about limited growth for next year.



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Trond Omdal - Arctic Securities - Analyst

So were you even allowing -- sorry, even allowing for your best assessment of increased gas production next year, you still see limited growth?

Eldar Saetre - Statoil ASA - CFO

Yes, when we say something like that, we take into account all the efforts that we know now. Obviously, this is something we will work on. We are in the middle of a planning process now, and we're feeding all the information and all our plans for the future, but the best estimate now is that there will be limited growth for next year, also taking into account all the components of the gas side -- maintenance, production permits, and also, the gas flexibility, as I talked about.

Trond Omdal - Arctic Securities - Analyst

Just a quick one on Kollsnes, follow up. There has been media reports on the Visund shutdown, so is that -- could you confirm that, and will there be any extensive shutdowns on Visund beyond when Kollsnes is down?

Eldar Saetre - Statoil ASA - CFO

As far as I know, we are in the process of resolving the issues on Visund, and hopefully, that should be resolved during November. That's the information that I have now. But you know, you never know, when you're dealing with -- we'll have to solve that kind of issues. But we think that can be solved.

Hilde Nafstad - Statoil ASA - VP, IR

Okay, I think we have another question from the audience.

Anne Gjoen - Handelsbanken Capital Markets - Analyst

Thank you. I'm [Anne Gjoen from Handelsbanken] Capital Markets. And when it comes to tax, you previously guided around 70% tax, the actual on adjusted numbers is 68%. But with your assumption of not much increase in production next year, is it then likely that we will have tax rate approximately at the same level that we have seen now, 68%?

Second question, when it costs, unit costs development, it's somewhat higher. That's mainly because you had a relatively low production on Troll, because it's rather low unit costs there?

And the final question. I would say that it must be more and more difficult with the production guidance, because of the natural gas market. Have you ever discussed to go away from the production guidance target, to guide on, for example, production capacity?

Helge Lund - Statoil ASA - CEO, President

Let me take the last two, Anne, and then perhaps you take -- address the first. In terms of -- you are right, in the sense that it's more difficult to guide you due to the liberalization of the gas market and to optimize that. In a way, that was the reason why we moved from one point figure to a range, and I think that has explained itself subsequently, that that was the right thing to do. How we would do this moving forward, we just have to assess continuously, and we need to find a way of communicating this that gives the best overview for our investors in understanding our business.

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The slight increase in unit costs that we are now indicating for 2010 has nothing to do with the absolute cost level, but it's a volume driven thing, given the fact that they take down the production volume, so it's actually really -- it's just a function on that, not an issue with cost.

Eldar Saetre - Statoil ASA - CFO

On the tax rate, I think the tax rate, you know, for this quarter is particularly low, because this quarter is special. Most of this maintenance is on the Norwegian continental shelf part of the equation, so that gives us a relatively lower because of the sort of uplift and so on, on the Norwegian continental shelf. So it's more special this quarter. I think the guidance that we have given of 70%, slightly -- maybe 70%, 71%, is still a very valid guidance for next year.

Hilde Nafstad - Statoil ASA - VP, IR

All right. We will then take some questions over the phone. Operator, could you please introduce the first question poser over the phone line?

Operator

First question comes from Hootan Yazhari from Bank of America.

Hootan Yazhari - Bank of American - Analyst

Good afternoon, gentlemen. Just one quick question. I think relative -- just if you could give us a quick guide on when you expect your issues with the Ormen Lange constraints to start coming off, and thus, you can start to see production growing more in line with what you were expecting there.

And the second question I have is, how management is thinking more about portfolio optimization at this stage. It seems like issues keep popping up in your mature asset base in Norway and for one reason or another. How are you thinking at the moment about selling off assets, and reducing your exposure to Norway? Thank you.

Helge Lund - Statoil ASA - CEO, President

Well, in terms of portfolio high grading, I think we have shown over the last few years, both on the divestiture side and the acquisition side, that this is an issue that we work with constantly, to try to optimize the portfolio, balancing several aspects. I cannot comment on individual plans or processes related to specific assets, and I don't want to discuss that either on a geographic basis. We are running portfolio reviews every year, very vigorously, and based on several considerations, including the one that you mentioned, we decide what to do with our portfolio. And you should expect us to continue to do that.

In terms of production permits, it's the Norwegian authority that decides, those authorities. We have no reason to believe that they will change their sort of historical way of dealing with this. Our assessment, moving into this year, was based on our best assessment on the production permit for Ormen Lange, our own assessment, not the operator. But this time, we did -- we were not able to predict it in the right way.

When it comes to more specific questions related to why the Norwegian authorities did it, and whether they would like to change their policy, you have to address it with the Ministry. But as we see it now, we have no reason to conclude that they will change their practices.

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Hootan Yazhari - Bank of American - Analyst

So is that -- just following up from that, do you see risks to your 2012 production targets, should this problem persist?

Helge Lund - Statoil ASA - CEO, President

Well, of course, it's always better to have full predictability, and this is, as you have seen, an important -- one of the important considerations that we have to make, but you should assume management to be able to make good estimates of this when we come forward with new guiding.

Hootan Yazhari - Bank of American - Analyst

Okay, thank you.

Hilde Nafstad - Statoil ASA - VP, IR

Next question, please, operator.

Operator

Next question comes from James Hubbard from Morgan Stanley.

James Hubbard - Morgan Stanley - Analyst

Hi, two questions, please. First, which is kind of an extension of that last one there, in your 2012 unchanged production guidance, what are you assuming about an increase in European gas sales over 2011? And obviously, Ormen Lange may or may not play a part in that. And if there is an assumption that gas demand is going to -- you're going to be selling more gas into Europe in 2012 over 2011, could you just give us a feel for what kind of scale of increase that is?

And then secondly, just briefly, on the Independence Hub. Is that decline and water entry pretty much as expected, or was it earlier than expected, and as it dries, it might necessitate a revision of the remaining reserves there?

Eldar Saetre - Statoil ASA - CFO

Okay, on the Independence Hub, it's -- you know, it's -- no, we knew it was getting towards the end. But I think the time it took to get to the end was slightly shorter than we expected, so I think that's the best answer to it. You know, when you -- it has never been a big part of our 2012 target or anything like that, but as you know, it came slightly -- the water breakthrough came slightly earlier than we had expected, and the search was a disappointment.

When it comes to the 2012, you know, I think this is a -- there are so many factors that goes into the judgment two years ahead, and a lot of assumptions that we have to make. And basically, what we typically do is to allocate certain risks to the various components, and take a portfolio view, and that's what we have done on the Ormen Lange. It might not come, it might come. On the gas volumes, what is the most likely? It's very difficult to say what this -- how, sort of the gas flexibility is going to look, how the gas market, how the forward curve is going to look when you get into 2012 and forward.

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So it's pretty much reflecting a risk base and neutral view on sort of the capacity that we will be able to produce, and that the market will be able to take, that in terms of other kind of operations and market operations, that is basically not reflected. It's more reflected in the range that we have used to illustrate the 2012.

James Hubbard - Morgan Stanley - Analyst

Oh, so could I just have an add-on? Could I take it that the bottom end of the range doesn't reflect any assumption of increased gas sales into Europe? Because -- I mean, I know there's lots of moving parts here, but the one part that presumably isn't moving is, what assumed gas increase you've got in the bottom of your range number?

Eldar Saetre - Statoil ASA - CFO

No, it's reflecting the -- sort of this underlying portfolio, the gas producing assets that we have in our portfolio, and their capacity to deliver gas. And no specific sort of assumptions on gas markets and how they look, and gas flexibility, as such.

James Hubbard - Morgan Stanley - Analyst

Okay. Okay, thank you.

Hilde Nafstad - Statoil ASA - VP, IR

Next question, please, operator.

Operator

Next question comes from John Olaisen from Carnegie.

John Olaisen - Carnegie - Analyst

Yes, good afternoon. A couple of questions if I may. First, on the production issues with Gullfaks and Kvitebjorn, you say that the pressure in the reservoir as such has come down. Could you tell us a little bit more about that? Is that due to the field coming into a more mature -- the fields coming into a more mature phase? Was it a surprise for you? What's going on with the reservoirs?

Eldar Saetre - Statoil ASA - CFO

It's not a surprise. You know, this has been an issue with the Kvitebjorn reservoir for some time, so we had this issue before. We had to shut down production in order to drill additional wells.

Basically, when -- it's more a question of when these conditions occur, and when the pressure development comes to a level where it becomes too low, and we simply cannot drill the reservoir. So you need a certain pressure, you know, in these type of reservoirs, in order to drill into a reservoir, where there's already holes producing in it. And there's interconnect connectivity between the -- sort of the producing wells and the new wells. You will simply -- you take out the pressure from the reservoirs, so when you drill into those reservoirs, the drill [includes] will simply disappear, and it's a safety risk. You can't do that.

So you need a certain reservoir pressure in order to be able to drill in a safe manner, and if you don't have those conditions, you cannot drill at all. You can not spud it.

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So basically, this is a judgment as to when do these conditions occur, and this has been the difficult consideration in this context. We had seen that this situation might come, but we have seen in more later, coming later, and now, this is something we saw through the pressure observations, that this is something we have to do now, and we couldn't risk losing the opportunity and the option to drill those wells.

John Olaisen - *Carnegie - Analyst*

All right. It's just that it's from two pretty mature fields, and it's all coming at the same time. I guess it surprised you after all. Is that correct to assume, that it was a surprise that the pressure is so low?

Eldar Saetre - *Statoil ASA - CFO*

You know, this is fine tuning. No, we have -- it's not a surprise. We observe the pressure every day, and so it's not a surprise that pressures are low. This has to do with specific reservoirs, and when you have these specific conditions that you either drill to a producing reservoir, or you drill in another part of a producing reservoir, and once you do that, then there's connectivity. And that doesn't occur in all instances, but in these two reservoirs, we have -- they are complex, we have that situation.

So then it's a question of really, when does this happen? It could happen -- we could take the risk, actually, and delay this for three months. We could take those risks and be happy about this year, and it still could work out fine. But you know, that sort of fine tuning of considering the risks has led us to say, we have to do this the safe way, so we do it now, and make sure that there is no risk we don't lose these wells. This is not a -- it's a big surprise to it, but sort of that this consideration led to this conclusion now, that was not expected.

So it's more small adjustments to the reservoir developments than big surprises, in terms of reservoir behavior. I don't know if that covered --

John Olaisen - *Carnegie - Analyst*

All right, but my second question, you say that new fields will contribute with 350,000 to 400,000 barrels in 2012 compared to 2010. Is that an estimated plateau production from all these new fields, or is this the actual expected production average for the full year 2012?

Eldar Saetre - *Statoil ASA - CFO*

It's the last one. It's the average for the full year, so the capacity will be much bigger at the end of the year from these fields. It's the average production from every month they produced during 2012 compared to every month in 2010.

John Olaisen - *Carnegie - Analyst*

All right, good. Do you have an estimate for the aggregate plateau production will be from those new fields, on a comparable basis, the 350,000 to 400,000?

Eldar Saetre - *Statoil ASA - CFO*

Yes, obviously, we have, but that's -- I'm haven't prepared that kind of information now, so I think our focus was now to create confidence on the -- more on the 2012, but obviously, these assets are well known, so I'm sure the technical capacity and description of these plateau, that's something that this is not a secret. So it can be made available at the proper time.



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John Olaisen - *Carnegie - Analyst*

Okay, excellent. Thanks a lot.

Hilde Nafstad - *Statoil ASA - VP, IR*

Next question, please, operator.

Operator

Next question comes from Oswald Clint from Sanford Bernstein.

Oswald Clint - *Sanford Bernstein - Analyst*

Hi, good afternoon. Two questions. First, I think around about this time last year, you would have been having discussions with a lot of your European gas buyers regarding some changes with the contracts coming into this year. I just wondered if you were having any similar discussions at this point in time, or is there anything we should expect coming out of the January capital markets update?

And then secondly, just on the Marcellus, it looks like you're steadily increasing production there over the last three quarters, despite the not -- the US price declining over that period. Are you happy just to keep trying, drilling to reach your target there, and is there no strategy to potentially slow that down, or at least, seek out more liquids rich wells in the Marcellus? Thank you.

Helge Lund - *Statoil ASA - CEO, President*

On the first question, we held discussions with most of our major clients during this year and last year, to try to solve in the best interests of both parties the current situation in the gas market as it looked at that time. Most of these discussions, the good majority, is concluded and dealt with as we have communicated, and as you recall, partly, it was to take away some of the volume obligations, and it was partly to move some of the pricing from the long term contracts formula to spot pricing.

And you know, we have also communicated that this is a situation that we expect would last to 2012, in terms of the agreements that we have made, and it goes that -- follows with that, that we have not had the same extensive discussions as we had the last time, last year.

So when we come back to the capital markets update in February, you should expect us to have a -- factor that into our communication about volumes moving forward.

On Marcellus, the view we have taken so far is, of course, that we have relatively marginal volumes at this stage, on the Marcellus, partly -- and we have a carry structure, so we have been focused on building an industrial position, and partly also, it's driven by lease expiry, so that there is certain incentives to push forward with production.

As the industry are solving some of these issues and some of the other carry structures, including our own, is sort of concluded, I would expect that it's a more market based approach you would see in the industry altogether in the US as we move forward.

Oswald Clint - *Sanford Bernstein - Analyst*

That's great. Thank you very much.



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Hilde Nafstad - Statoil ASA - VP, IR

I think we have one last question over the telephone line, operator.

Operator

Next question comes from Dominique Patry from Cheuvreux. Please go ahead.

Dominique Patry - Cheuvreux - Analyst

Yes, good afternoon. In 2010, you have had operational program on Gullfaks,, you have had operational problem on Kollsnes. To which extent this operational issue increase the challenge for you to maintain stable your prediction in Norway, as it is your long-term ambition?

And secondly, you have quantified the near term production decrease related to the enhanced oil recovery that you are putting in place in Gullfaks and on Kvitebjorn. Could you maybe help us quantify the upside related to those programs?

And last question, to which extent the elements that are leading you to downgrade today your production guidance? Could you help us quantify the impact of the elements into your 2011 newly set guidance of limited production growth? Thank you.

Helge Lund - Statoil ASA - CEO, President

Well, on -- maybe you can answer the two latter, Eldar. But if we talk, speak a little bit about the operational issues in 2010 at the Norwegian continental shelf, I think those have been very specific, unrelated items. Very specifically, the well incidents at Gullfaks, we had one rig that were planned to do production drilling at Gullfaks that didn't work, and there has been a legal process related to that. And then you have had this very specific Kollsnes issue.

So I think you cannot infer or conclude that this pattern -- that this is a pattern that will continue.

When we have talked about, and continue to talk about the ambition of keeping the production level for the next ten years at the current level, we have tried to factor in these factors. And as I see it now, we have the resources. So the questions is more, and that you have to assess over time, whether we, as an organization, are able to put in place sufficient mechanisms to counter the facts, the fact that our installations are getting older, and we have done quite significant measures so far, in terms of changing the offshore organization. We have moved all our drilling engineering into one drilling unit, to standardize and industrialize the well delivery and the quality in that.

And as you know, we have recently embarked on a very aggressive process to half the time it take from your discovery resource base until you get it into production, the so-called fast track projects.

So I think we're working diligently and very focused to counter these forces, and we have no information as of today that lead us to change our ambition of keeping the production at this level. But it will no doubt require very, very high effort from the organization.

In terms of enhanced order recovery in the Gullfaks and Kvitebjorn issue, these decisions are made in a way where we try to optimize the resource utilization, and it's done on a net present value basis individually. And you should not expect that immediately, that this will lead us to change our guiding for 2012 or 2011. Rather, at this stage, you should conclude that this is included in our statements about the future, and then we will come back in much more detail on 2011 and the period beyond in February.

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I think there was one more question, but --

Eldar Saetre - Statoil ASA - CFO

Well, that was (inaudible). I could add, on the Kvitebjorn and on the Gullfaks South, it's a question of three wells that needs to be drilled, and basically, these wells there into our plans, it was a question of when we start to get the reservoir conditions to do it. But it's included in the guidance, the long-term guidance. And as such, to make sure that we were able to do it is an IOR measure, as such. And the same is the case for the Kvitebjorn. It's one well, it's been planned for a long time in the schedule. But this was to make sure that we had a reservoir, which was -- you know, had the right conditions.

Dominique Patry - Cheuvreux - Analyst

And if I may just come back to my third question about the quantification of the recent elements that led you to downgrade the 2010 guidance, to which extent can you help us? I said, the remaining (inaudible) acting on your 2011 guiding.

Eldar Saetre - Statoil ASA - CFO

I'm not sure I captured the question, but I think none of these things has any -- has triggered any comments on the 2011. We have seen for a long time that 2011 and the portfolio, our portfolio and the buildup of the new assets that's going into 2012, would start, to a large extent, during 2011, and into 2012. We have very limited capacity in -- additional capacity in place this year, and in order to have a really boost next year, we would have had to had a lot of new capacity in place this year actually.

So -- and basically, this year, we are talking about Gjoa and Morvin, in terms of new capacity, and only for a small part of the year.

So this is just to say something which is -- you know, if you put all this together, and combined with the Ormen Lange issue that we also talked about, which is sort of putting pressure on the 2011 numbers, that's what sort of led us to reiterate something we have seen for a long time, and we have all stated that there is no linear growth taking us to 2011. There will be variances.

And so basically, there is nothing new in this from our side, except for the Ormen Lange. The project portfolio is developing, it's simply the profile of these new assets, and when they can give us the annual average production.

Dominique Patry - Cheuvreux - Analyst

Okay, thank you very much.

Hilde Nafstad - Statoil ASA - VP, IR

Do we have any more questions over the phone, operator?

Operator

Yes, there's one more question from Kim Fustier from Credit Suisse.

Kim Fustier - Credit Suisse - Analyst

Hello?



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Hilde Nafstad - Statoil ASA - VP, IR

Yes. Go ahead.

Kim Fustier - Credit Suisse - Analyst

Hi, good afternoon, gentlemen. I had a couple questions. The first one is, again, coming back to gas, you've cited a lot of factors that explain the lower gas production in Norway in the third quarter, but one you didn't really mention was the lower customer offtake under your long-term contracts. So I was just wondering if you could give us any color on this.

And secondly, I see you've recently submitted an application to drill in the Barents Sea. Could you just talk about your plans there, and what's the prospectivity of the area? Thank you.

Helge Lund - Statoil ASA - CEO, President

Well, I can take the latter, perhaps, the new gas boss of Statoil, Eldar, will talk to the latter subsequently.

On the Barents Sea, historically, we have drilled -- I guess the industry, and altogether between 65% and 75% wells, I think altogether in the Barents Sea. So far, it's only the Snohvit project that is producing from that well history, and there is one more project now under execution, the Goliat project, where ENI is the operator, and Statoil is a big partner.

We are now in the -- into a new phase, where we will, over the next year or two, drill additional wells in the Barents Sea. That will be in several areas of the Barents Sea, and it will test some new place, among others, in the Western part of the Barents Sea, where we will drill a well where we think it's a high impact well called Skrugard later -- or during next year.

Then we had the application, the recent application, the 21st round, I think it was, in Norway, and where we -- where the focus is really on the Norwegian Sea, and some acreage that has not been picked up earlier in the Barents Sea. That is also positioned in this round.

So I think, if I think about the strategy in this, we still have an incentive to drill around the Snohvit and Goliat field to find additional resources. Secondly, we are testing some new plays, particularly on the Western side of the Barents Sea. And then, of course, in the longer term horizon, the recent agreement that is subject to ratification in the Norwegian Parliament and the Duma in Russia, of the disputed zone, might create new opportunities for the oil and gas companies longer term. But this is a bit more longer term issue, as we first have to have the agreement ratified, and subsequently, we have to -- sort of been given access to that area, and do seismic and exploration.

So in summary, I think, so far, the Barents Sea has -- on the Norwegian side, has been, I think, we have not been able to identify the key to the Barents Sea yet. And maybe on the more disappointing side, compared to what you saw ten years ago, but we still have very specific plans and we will know more within the next two to three years.

Eldar Saetre - Statoil ASA - CFO

In terms of the gas offtake, it's -- I didn't mention it. When you look at the gas year, the 2009 gas year, which ended this quarter, actually, I think the overall gas offtake is pretty much what we have seen over the last year. No surprises in either direction.

It's true that the offtake in the third quarter, the last quarter of the gas year, might have been slightly lower, not significantly lower, but slightly lower than typically. This has, however, not been the limiting factor of our production this quarter. Because of the extensive maintenance, the production capacity and the processing capacity in Norway has been the limiting factor.



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So the extent -- to the extent it has been lower offtake, that has simply led to a lower sourcing of gas in the market, the third party gas.

Kim Fustier - *Credit Suisse - Analyst*

All right, thank you.

Hilde Nafstad - *Statoil ASA - VP, IR*

I think we have another questions from the audience.

Trond Omdal - *Arctic Securities - Analyst*

Trond Omdal, Arctic Securities. A question on the portfolio management. You have made significant divestments and strengthened your balance sheet considerably this year. While we see other of your players, maybe with the exception of BP, moving more into M&A, and looking at your reserve replacement and growth.

So given that, you know, have a very uninspiring production this year, and also next, could you explain your thinking, why you didn't prioritize acquiring more near term production versus longer term, and also, why -- is it the macro outlook that's made you strengthen your balance sheet compared to increasing production through acquisitions?

Helge Lund - *Statoil ASA - CEO, President*

First of all, I would like to say that I take, and we take a quite pragmatic view as to how we develop the portfolio. I mean, exploration, business development and the merger and acquisition, and I think we still will do that.

Secondly, I think we have been, the last five to six years, we have been pretty active in terms of building our portfolio, also through acquisitions and partnerships.

But on the divestment side, or the -- that side, we have done basically two main sort of efforts. The first one has to do with the Peregrino asset, where we had a 100% position. We like the asset, it's a beautiful asset. We like it. We have, I think, together, created value on that asset, but we would -- this is part of our risk management strategy altogether, when we look at our portfolio.

And then we have the SFR sort of deal done a few weeks back. This was driven by industrial logic, really, that we felt that this company and Statoil could perform better as separate companies, and also, that we felt that the market was not willing to put a value on that part of the business, and I think we have visualized that in a better way, the way it's structured now.

In terms of how have the market been for acquisitions of assets recently, and I think -- our observation is that despite the financial crisis, there has not been -- we are not seeing a significant impact on the asset prices over the last few years.

In terms of just buying production, we have not had that as part of our strategy. We would like to move into areas that has a strategic perspective, and where, we believe that we can, with our competence, add value much more than buying a short term income stream.

Hilde Nafstad - *Statoil ASA - VP, IR*

Do we have any further questions over the telephone, operator?

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Operator

There are no further questions on the telephone.

Hilde Nafstad - Statoil ASA - VP, IR

Are there any further questions from the audience? If not, this will conclude --

Trond Omdal - Arctic Securities - Analyst

Just one final question on Heidrun. Of course, that was written down on the Q2, but some of the comments on the NPD have been somewhat critical and also Petoro that Statoil is not doing enough to do IOR on the continental shelf. Maybe some of -- do you see -- is there anything in the Heidrun story that could have been done better by Statoil, or -- and also, do you think -- well, I know the answer to that, but do you think you're doing enough to maximize the recovery on your assets in Norway?

Helge Lund - Statoil ASA - CEO, President

Well, first of all, I think the history on the Norwegian continental shelf is actually in the history of -- an enormous focus on resource management, and I think Statoil has been a very important player in that. And I think given how we see the oil and gas industry developing, I think we have all the incentives in the world to do profitable projects within this area, and we're constantly working on this by applying new technology, developing new technology, and most recently, we had a full hour in the corporate management team over the last Monday, to be given an update on this.

And then there will be other players that are critical to what we are doing. I think that is fair, since we have such a big position at the Norwegian continental shelf. And they are pushing us, and they should. I'm not saying that we are doing everything as it should be done, optimally, but I can only assure you that we have an extremely intense focus on IOR. I won't comment at this stage specifically on individual assets, but that is our thinking.

Eldar Saetre - Statoil ASA - CFO

Could I just add, I thought you said that it was written down in the last quarter. Heidrun has not been --

Unidentified Participant

(Inaudible question - microphone inaccessible).

Unidentified Participant

No. Not to my knowledge.

Eldar Saetre - Statoil ASA - CFO

That was a good try.

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Hilde Nafstad - Statoil ASA - VP, IR

All right. That concludes our Q&A session today. Today's presentation and the Q&A session can be replayed from our website. And in a few days, it will also be available to find the transcript of the presentation and the Q&A session.

So with that, I would just thank you all very much for participating, and wish you all a good day. Thank you.

Helge Lund - Statoil ASA - CEO, President

Thank you.

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