

FINAL TRANSCRIPT

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STO - Q4 2010 Statoil ASA Earnings Conference Call & Presentation

Event Date/Time: Feb. 09. 2011 / 12:30PM GMT



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Helge Lund

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Paul Spedding

HSBC - Analyst

Brendan Warn

Jefferies & Company - Analyst

John Olaisen

Carnegie Investment Bank - Analyst

Trond Omdal

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PRESENTATION

Hilde Nafstad - *Statoil ASA - Head of IR*

Ladies and gentlemen, welcome to the Statoil presentation, both to the audience here at The Brewery in London and to the audience following the presentations on web or by phone. My name is Hilde Nafstad and I am the Head of Investor Relations.

Please note the emergency exits on both sides of this room; one in the back of the room and one right behind me. Today's events can be followed by webcast. The webcast and transcript of the event will both be made available later.

Today's program is split in two. First, Statoil's Chief Executive Officer Helge Lund and Chief Financial Officer Torgrim Reitan will give a short fourth quarter and 2010 earnings presentation. At 1.30, London time, we will start our strategy update with our CEO, CFO and our Executive Vice President for Development & Production Norway, Oystein Michelsen.

Each of the two blocks of presentations; first, the fourth quarter 2010 and then, later, the strategy update will be followed by a Q&A session. Our web audience should observe the phone number on the page where you access the webcast. This is the number to use for the Q&A. The first Q&A session is devoted exclusively to questions related to the fourth quarter and to the full year 2010.

At 6.30 London time, Statoil published results for the fourth quarter of 2010. We also published all the presentations you are going to see today. Go to our website, statoil.com, and follow the link from the front page if you want to open or download these now.

Can I ask you, both here in London and all who download the presentations, to carefully study the forward-looking statements at the end of the presentations.

And, now, it is my privilege to introduce our CEO and President Helge Lund.

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Helge Lund - Statoil ASA - CEO

Thank you, Hilde, and welcome to all of you. It's good to be here. It's also good to be finally able to talk about 2010 but, maybe even more importantly, to later talk about the future for Statoil.

As Hilde said, the focus of this session is primarily fourth quarter and we will look at our plans moving forward in the session later.

2010 has been a very active, strategic year with good strategic progress for Statoil, and we have also been active in terms of portfolio management. We have matured our portfolio. Five new fields have been set in production and we have sanctioned another nine projects.

We are now also accessing the high potential exploration acreage through, now, the nomination of Statoil by Sonangol as a partner and operator at several pre-salt opportunities in offshore Angola.

We have, also, throughout 2010, been strengthening our unconventional US gas position by accessing yet another low breakeven field, or area, in the US.

I think also, in terms of strategic significance, it is important that we, through this year, have been able to list successfully the Statoil Fuel & Retail and thereby, clarified even further the strategic profile of Statoil as a technology driven, upstream company.

I think also that you have noted that we have been active with our international portfolio by the farming down to two industrial partners of 40% on the oil sands assets in Canada and also in our offshore asset in Brazil on Peregrino and created, I think, very good value for Statoil and our shareholders. As a consequence of the active management of the portfolio the last few years, we are now improving on our reserve replacement ratio and for the year 2010 it is now up to 87% for the year in total.

During 2010, we have also maintained a very high activity level at the Norwegian Continental Shelf and I think securing the foundation for a sustained high level value creation in our home market.

Production has been very strong and stable in the first part of the year but during the second half of the year we produced less than expected, and I will come back to the reasons for that later in my presentation.

I think other significant aspects of our 2010 results has been that we continue to improve on safety and on HSE. We demonstrated good cost control in our operations, particularly in Norway. We delivered strong cash flow and continued to show that we care about also the direct dividend to our shareholders and the proposal for the Board of Directors is to pay NOK6.25 per share for 2010.

As I said, we produced at a high level during the first half of 2010, demonstrating the capacity of our portfolio. And I was especially pleased with our operational performance and the stability of our performance in that period, and we were able, therefore, to utilize most of our capacity.

But during the second half of the year we experienced specific operational issues, taking the annual production to a lower level than we expected earlier in the year.

As we told you at the third quarter presentation in Oslo, the Q3 was impacted by planned maintenance, especially also this year impacting our gas delivery system. This, combined with specific operational issues at our Gullfaks field, lower than expected production permit on Ormen Lange. Going into Q4, we also talked about during the Q4 -- Q3 presentation that we decided to temporarily shut down some production wells on the Gullfaks South field and on the Kvitebjorn field, and that was to make sure that we preserve the reservoir and the production capacity for the longer run. The result of this, as you know already now,



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was that we took down the production guidance from 1,925,000 barrels per day and 1,975,000 barrels a day, the range, down to 1.9m barrels per day.

In the fourth quarter, we saw slower than expected buildup of production from the massive turnaround program we had in Q3. This, combined with certain operational issues at some of our partner operated assets in Angola and Azerbaijan and also some issues at the NCS assets, led to a production level that was lower than we had anticipated at the third quarter. So this took us for the year down to 1,888,000 barrels for the year in total.

We are now working with all our teams to make sure that we correct these specific operational issues. I do not see that it is systematic issues, although some of them, as I will speak to you later today, will also influence production in 2011.

If we look at the results a little bit more in detail, we delivered strong cash flows and good financial results in 2010. Statoil's fourth quarter 2010 adjusted earnings was NOK40.8b and that is up 19% from last year. And for the year 2010, the adjusted earnings was NOK142.8b, up 9%. This was primarily driven by oil prices -- higher oil prices but partly offset by lower gas prices for the year. As you know, there is a six months delay in the gas prices compared to how the oil market is working, and also lower volumes.

I'm pleased to, again, show that we are demonstrating good cost control and the costs in our operations are largely in line with last year.

A few comments on the different business areas.

E&P Norway delivered yet another strong financial result, underpinning the strategic importance and financial importance of these great assets for Statoil. And we will, later today, go through in detail how we would like to develop our position there as we move forward.

International E&P continued to build momentum, and adjusted earnings increased by 50%, year on year.

Natural Gas continued to demonstrate high financial results and significant value creation in a changing gas market.

Marketing & Manufacturing is influenced by the poor market conditions for our refineries. Torgrim, our new CFO, will take you much more in detail on some of these numbers later in his part of the presentation.

Our performance this year again enables us to pay an attractive dividend to our shareholders. Since the listing of Statoil in 2001, we have always given high priority to dividends. This illustration that you see here does not take into account the fact that we paid special dividends for a number of years so the actual payout ratio was even higher than what you will see here. And the ordinary dividend has increased over the years.

The Board of Directors, as I said, has decided to propose a cash dividend of NOK6.25 per share for the Annual General Meeting, which will take place in Stavanger on May 19. This implies that the ordinary dividend will grow by more than 4% from last year and it implies the payout ratio of 52% of net income.

Let me now give the floor to our new CFO Torgrim Reitan, who will expand on the quarter and also on the financials. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you, Helge. As many of you know, I took up the position as CFO only one month ago and it's good to finally get started in my new job. It's a privilege to step up as a CFO in a company this financially solid and with clear growth opportunities. I do



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like details but I'm not going to go through all the numbers that you'll find in the MD&A. I will go through the highlights and the key drivers of our results.

Our quarterly result is strong and, as you know, we have large exposure to the changes in oil and gas prices, so the increasing prices have had a significant impact. But we cannot be fully satisfied as we did not utilize the entire production capacity in the second half of the year. However, the increase in oil and gas prices more than outweighed the negative impact from reduced volumes in the quarter. And we see an improvement both in reported and adjusted results compared to the fourth quarter in 2009.

The reported net income increased by 37% from fourth quarter in 2009 and the adjusted earnings increased by 19%. The main causes to the change in earnings is the following.

The increase in oil and gas prices contributed positively by NOK12b. The decrease in production caused a reduction of NOK4b. Exploration had a negative impact of NOK1.6b, while Refining yielded better results compared to last year.

The illustration behind me takes you from our reported net income to adjusted earnings after tax. The adjustments in the quarter amounts to NOK2b. The most important one is related to renegotiation of a regasification capacity at Covee Point. The length of that contract is halved and the commitment in the remaining period is also reduced. We have therefore reversed NOK2.7b on the earlier provisions related to the contract. You will find more details in the MD&A.

Furthermore, our operating expenses, they were reduced by 4%, quarter on quarter, while the selling, general and administrative costs increased due to ramp up of new production. We've spent more on Exploration and we have two expensive wells that we expensed in the quarter. That is the Krakatoa well in the Gulf of Mexico and the Soleie well on the Norwegian Continental Shelf.

The financial items, when we adjust for foreign exchange and interest rate derivatives, was NOK0.0b, in other words, close to zero and exactly what you should expect.

The tax rate was 74% in the fourth quarter, both for reported earnings and adjusted earnings. The main explanation for the relatively high tax rate in the quarter is the segment tax within International E&P, which in this quarter was around 80%. And this is related to provisions and expensing of the Krakatoa well I just mentioned.

We have earlier guided on a segment tax rate internationally at 40% to 45%. Adjusting for the provisions at cost in countries where we do not have tax shields for accounting purposes, the guiding is still valid.

Okay, let's then turn to the full year 2010. The reported net income more than doubled from 2009 to 2010. The adjustments for the full year amount to NOK5.5b, with impairment losses related to Mongstad and Corrib are the main contributors.

The adjusted earnings after tax increased by 11%. The increase in oil price had, of course, a significant effect while the gas prices for 2010 actually was lower than in 2009, and this is due to that the majority of our gas sales are on long-term oil-linked contracts where we have a lag in the pricing. So the 2009 gas price was heavily impacted by the very high oil prices in 2008. The total price effect explains NOK30b of the increase from 2009. Reduced production contributed negatively by NOK13b and adjusted exploration expenses were NOK4b higher in 2010 than in 2009.

We completed 39 wells in 2010 and that includes extensions. And we had 25 -- 21 wells where we defined as discoveries.

Total adjusted exploration was NOK17b and that was somewhat above our guidance given last year.

We reduced our adjusted operating expenses by NOK1b last year and we had a reduction in the combined operating expenses and SG&A. That is despite that we have are stepping up production in new fields and we now have more fields under operations. And this is due to cost improvement initiatives and also from lower production from 2010 to 2009.



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The tax rate was around 72% for 2010 based on reported earnings, and 71% based on adjusted earnings.

I would also like to mention that Statoil Fuel & Retail is still consolidated 100% in our accounts due to that we own more than 50%. And Statoil Fuel & Retail is reported as a separate segment.

Let me then turn to the cash flow. Cash generation has been strong throughout the year and the cash flow from operations has been more than sufficient to cover taxes, investments and dividends. Our cash flow for 2010 is, of course, largely impacted by increased oil prices and we generated NOK190b in cash from underlying operations and we paid NOK92b in taxes.

Our cash flow through investments was NOK76b and ended around what we told you one year ago.

Since the closure of the Canada transaction and the Peregrino transaction belongs to 2011, the proceeds from these will be part of the 2011 cash flow. However, we have received some prepayments from the transactions already. The Canada transaction, was, by the way, closed in January.

In 2010, we paid NOK19b in dividends, or NOK6 per share.

During 2010, we also took advantage of favorable market conditions in the debt market and issued new debt of \$2b. Our net debt to capital employed ended at 25% at year end and that is down from 27% one year ago. This leaves us with a very strong financial position as we enter 2011, and I'm very pleased to step up as the CFO for a company in this shape.

So, 2010 in brief. Strong results and cash flow; high production in the first half of the year, with temporary operational issues in the second half; continued portfolio optimizations resulting in value creating optimizations -- value creating transactions; and many projects underway that we will discuss later today.

Thank you for your attention and then I will leave the floor to Hilde, who will lead us through the Q&A session.

QUESTIONS AND ANSWERS

Hilde Nafstad - Statoil ASA - Head of IR

Thank you. As Torgrim said, we will now turn to the Q&A session. The session will last for approximately 15 minutes. Let me just repeat and emphasize that we in this session only will take questions related to 2010. You will have the opportunity to ask forward-looking questions in the next session. Please limit yourselves to one question at a time. For the audience in the room, please give me a signal if you have a question. Microphones will be passed. For the audience on the phone, please listen to the Operator's instructions regarding asking questions, which will come right now. Operator, can you please give us the procedure for questions?

Operator

Thank you. (Operator Instructions).

Hilde Nafstad - Statoil ASA - Head of IR

Alright, do we have any questions from the audience? Yes, we have one over here.



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Paul Spedding - HSBC - Analyst

Paul Spedding from HSBC. I wonder if you could give us an indication as to how your production ended the year as clearly Q4 was impacted by various unusual outages. I was just hoping to get a better picture for what the quarter could have looked like if things had gone more according to plan.

Torgrim Reitan - Statoil ASA - CFO

We had in the third quarter results, we gave an updated guiding of 1.9m barrels a day and that was taking into account the knowledge we had at that point in time. As such, we ended slightly below that number for the year end and that was related to operational issues in the partner operated part of the portfolio; Angola and Azerbaijan. And we also had some issues related to gas processing on Kollsnes and we had the Kristin issues as well which we put out there on some news. I think if you add those, you have the main contributors to the production in the fourth quarter.

Hilde Nafstad - Statoil ASA - Head of IR

Another question here.

Brendan Warn - Jefferies & Company - Analyst

Thank you. It's Brendan Warn from Jefferies. Just on CapEx, a backward-looking question in terms of can you give us any clarity or breakdown on the CapEx in terms of what was spent on new developments versus stay in business, and also split from Norwegian Continental Shelf and international, and just whether any of the under-spend in '08 and '09 has led to some of the production issues?

Torgrim Reitan - Statoil ASA - CFO

Investments for 2010 is broadly split equally between Norwegian Continental Shelf and internationally. And, generally, we spend around 10% related to the downstream activities; refinery upgrades and new energy, so there you have the broad split.

I would say if you look into the international investments, those are heavily reflected into growth prospects.

When we look at -- in Norwegian investments, a significant part is used to grow that part of the business investing in new projects but also a significant part to improve the valuation and improve the performance of the already existing productions. And we will talk more about this in the afternoon session.

Helge Lund - Statoil ASA - CEO

In terms of the second part of your question, there is no relationship between the slightly lower CapEx and the production shortfall in the fourth quarter. That is associated with a very specific point that Torgrim already mentioned.

Hilde Nafstad - Statoil ASA - Head of IR

Okay, can we have the next question from the audience?

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John Olaisen - *Carnegie Investment Bank - Analyst*

This is John Olaisen from Carnegie. A question on the production permit on Ormen Lange. You didn't get an extension or expansion or production license for that field in 2010. Could you elaborate a little bit on why? Is there a dispute on the optimal production with the reservoir characteristics etc? Why didn't you get the production permits on that?

Helge Lund - *Statoil ASA - CEO*

Well, the explanations are seldom given for that so we have to take what we get. But we do not anticipate any general change when it comes to policies related to production permits.

Hilde Nafstad - *Statoil ASA - Head of IR*

Next question.

John Olaisen - *Carnegie Investment Bank - Analyst*

If I may just a follow up on that one. For next year, it seems like Troll, the biggest gas field in Norway, is experiencing the same issue. Is there a reservoir issue or is this -- or what's the reason behind that? Is it like a black box for us?

Helge Lund - *Statoil ASA - CEO*

Well, again, they do not normally give explanations for production permits. But it's true that for the next year we have a lower production permit for the next gas year than we have had in the past and that is also partly explaining, which we will cover later today, a lower production in 2011.

Hilde Nafstad - *Statoil ASA - Head of IR*

Are there anymore questions here in London? If not -- yes, we have one over here.

Trond Omdal - *Arctic Securities - Analyst*

Trond Omdal, Arctic Securities. This year you cut capex by close to 10% while, for instance, one of the competitors, Shell, maintained their CapEx and they have been rewarded both by the market and also stronger production performance. Is it related to that they have a stronger balance sheet difference in macro view or the opportunities that has led you to that? Do you think still it was a good choice to cut back CapEx?

Helge Lund - *Statoil ASA - CEO*

Well as we have seen in the last few years, we have given our size and the quality of our portfolio. We have had a quite high CapEx level and we'll discuss the CapEx level moving forward. We are actually pretty proud of the fact that we were able, through the financial crisis, to handle the balance sheet in a way that protected the majority of our investment program, both in Norway and internationally, and it's not any decisive strategy to cut back on CapEx. It's more timing issues than we have been able to mature the different prospects.



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Hilde Nafstad - Statoil ASA - Head of IR

Any further questions in London? Operator, do we have any questions on the phone lines?

Operator

There are no questions on the telephone.

Hilde Nafstad - Statoil ASA - Head of IR

Alright. Then, I think we will close this morning's -- or this first session. We will now take a break and then we will continue at 1.30 for the Capital Markets update, so please be back promptly. Thank you very much.

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