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STL.OL - Q4 2011 Statoil ASA Status Update and Earnings Conference Call

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OVERVIEW:

Co. reported 4Q11 net income of NOK25.5b and 2011 EPS of NOK24.76.



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PRESENTATION

Hilde Nafstad - *Statoil ASA - Head of IR*

Ladies and gentlemen, welcome to Statoil's fourth-quarter earnings presentation and strategy update, both to the audience here in Oslo and to our audio and webcast audience. My name is Hilde Nafstad. I'm the Head of Investor Relations with Statoil.

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

This morning, at 07.30 Central European Time, Statoil announced results for the fourth quarter of 2011. The press release and presentations for today's event was distributed through the wires and through Oslo Stock Exchange. The quarterly report and the presentations can, as usual, be downloaded from our website, statoil.com.

I would ask you to kindly make special note of the information regarding forward-looking statements, which can be found on the last page on the presentation set.

Today's program will start out with Statoil's Chief Executive Officer, Helge Lund, providing a strategy update. Thereafter, Statoil's CEO Torgrim Reitan, will go through the earnings and the outlook for the Company. The presentation will be followed by a joint Q&A session.

Please note that the questions can be posted by means of telephone only, but not directly from the web. The dial-in numbers for posing questions can be found on the website. The operator on the conference call will explain the procedure for posing questions over the phone. The event will close around 3pm Norwegian time.

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



Helge Lund - Statoil ASA - President & CEO

Thank you, Hilde. And dear ladies and gentlemen, welcome to our strategy update for 2012.

It is always stimulating and challenging to meet our investors and the analysts, both to present our results but also to show you how we are executing on the strategy, and I think more importantly for you, that we make ourselves available to be challenged on simple and more challenging issues. I think what you expect is bare facts, clear strategic direction and also a few surprises. That is exactly what we will try to provide throughout the presentations today.

Last year, when we met with most of you and many other investors and analysts in New York, we presented our new strategic framework. We emphasized at that time the priority of safe and efficient operations, on the strong project portfolio and quality of the investment program, a good and growing cash flow, including a solid balance sheet, and finally that we have a strong commitment to deliver also dividend according to the policy that we have formulated and communicated to yourselves earlier.

These are topics that we will address in depth today, but before we do that I will reflect very, very briefly on the 2011 numbers, as Torgrim will go through those in much more detail later.

The summary of all is that we delivered record results, net operating income of NOK211.8b. Adjusted earnings were up 26% to NOK179.9b, record earnings, delivering an EPS of NOK24.76, and also a strong underlying cash flow from our operations, at NOK244b. This has been driven by primarily production, according to our expectations and plans, and also through solid prices, as you all know, and finally that we have made a number of transactions recently that also gave NOK23b in gain on sale of assets that contributed also to the results for 2011.

I think more importantly for the Group, I think 2011 was a strong year in terms of industrial progress, and by that I believe -- by that I mean safe and efficient operations. And if you look at the safety results, here measured in number of serious incidents per million work hours, at 0.9, we have never been at this level. So I think we are approaching our ambition of being an industry leader.

We have marked the startup, and I think that is significant industrially for Statoil, of the two first own-operated assets outside Norway. And we have continued what we have done over the last few years, paid more emphasis to the execution of portfolio transactions, to high-grade our portfolio of assets.

But maybe the most important thing that happened for Statoil industrially last year was, I think, good success in exploration. We made many new discoveries. We completed 41 exploration wells, of which 22 so far is discoveries. I think seven is now awaiting evaluations. And we made the discoveries of course in Norway, but also in Brazil. This brought, all together, more than 1b barrels to our resource base.

Production, as I see it, is exactly as we planned, in the sense that there are no surprises here. We have moved some gas volumes out of 2011, to follow the value over volume strategy. You know from before that the BP operated Skarv is delayed, and also we have lower production than the potential from the Gullfaks Field due to the well incident that we had in 2010. But the production is according to what we have said. You also know about the riser issues that have been -- impacted the production throughout 2011 and partly 2010.

Since I came to Statoil, back in 2004, you have constantly, and I think rightly so, challenged the Company on the reserve replacement ratio. And this is an important measure in determining the long-term growth prospects of the Company. However, to address this, this is not a short-term, a quick fix. It's something that you have to systematically attack by building the resource base, by maturing resources, and finally to execute the projects in an efficient way. And I think it's fair to say that, as far as I see it, in 2011 we turned a corner, and you saw the results of the effort that the organization has done over many, many years.

Just to give you some flavor to this, we have sanctioned more than 50 projects in Statoil since 2007, 28 of these at the Norwegian Continental Shelf. We have put 24 projects on stream, 10 of these at the Norwegian Continental Shelf. And also, IOR has contributed significantly to add to the reserve base this year, and is an important contributor to the positive development that we see in 2011. On top of that, we have done both acquisitions and divestments, and Eagle Ford and Bakken is also contributing to the good numbers.



I'm therefore pleased with the reserve replacement ratio of 117%, but perhaps even more pleased with the underlying facts. And I'll give you some more granularity, in the sense that the RRR for Norway is also above 100%; for the international part, it's 177%. And we also have an organic reserve replacement above 100%, and we have an oil reserve replacement ratio of 145%.

And we believe now that we have the basis for delivering an RRR above 1 on average, moving forward to 2020. Naturally, it could be some fluctuations from year to year, because project sanctions come when they come. But I think this should give you a good guiding on how we will perform moving forward.

Moving to the financial performance, we measure and benchmark ourselves along a number of dimensions, and I see that some of you focus that we are only communicating around the volume metrics. Of course we run very strictly according to the financial framework. We are focusing on where we should be in terms of production unit costs, where we should be in terms of return on capital employed, and also in terms of the total shareholder return that we are giving to the shareholders. And we have the ambition of being in the top quartile on all of these factors.

We will continue to maintain our standing, and remain very vigilant in terms of value creation, capital efficiency and costs. Having said that, I believe strongly also in developing a company that is growing and is not standing still.

The confidence we have in the position of the Company and the growth prospects and where we are today, the Statoil Board of Directors will propose to the Annual Meeting a cash dividend of NOK6.50. That is an increase of NOK0.25 from last year, and is in line with the dividend policy of the Company. It represents roughly 4% growth from last year and a dividend, if you use the closing price on February 6, of 4.3%.

I refer to the strategy that we presented to you in New York in June. Directionally, we will continue to develop Statoil as an upstream focused company, because that is where we think we can leverage the core capabilities of Statoil. And the focus is to grow the production profitably, as I said, to more than 2.5m barrels per day in 2020, and that ambition remain firm. I'll come back to that later.

I think more importantly now, eight more months or so later, we have made good progress on the strategy implementation. I will not go through this in detail, but on all of the key priority areas for Statoil we have made significant progress in terms of delivering on what we said.

As I see it, we have the resources to back the growth ambition, and I think you see that as well. Therefore, my perspective is that for us this is to a large extent about execution, how we are maturing and executing on the projects and our day-to-day operations. I will go a little bit deeper into our plans and progress by starting on the Norwegian Continental Shelf.

I think it's fair to say that some of you over the last few years have challenged on our position at the Norwegian Continental Shelf, and you have challenged on the future potential. I think that sentiment throughout 2011 changed to the positive. We see in the industry an increased interest for Norwegian Continental Shelf, and we see also an increased interest from shareholders in the value creation potential at the Norwegian Continental Shelf. That is hugely motivating, I would say, for the organization.

We still believe, and we have thought that in many years but maybe not been able to communicate it, that NCS represents a superior and sustainable value creation opportunity for Statoil for many, many years into the future. Why is that? Because we have long-lived assets with significant IOR potential. We have a big pipeline of high-quality projects that we will go through later. We have matured and continued to mature and set in motion new fast-track projects. And on top of that, I think you have seen that there is a good exploration potential at the Norwegian Continental Shelf, moving forward.

In 2011 we continued to mature our portfolio, adding more than 500m barrels of proved reserves at the NCS. We stepped up investments in profitable NCS projects, and six PDOs were delivered throughout 2011. And just to give you again an idea of the fast-track potential of those, we have visibility now and are in the planning and execution phase, so we'll deliver around 90,000 barrels per day in production already in 2014, which is a meaningful number.

High-grading, as I said earlier, of the portfolio is also an important part of how we develop the portfolio and the strategy of Statoil. And you know that we have carried out the divestment and farm-down of a number of assets at the Norwegian Continental Shelf to Centrica, in a deal that I



thought was meaningful both for Centrica and ourselves. We have increased our ownership position at Snohvit, and we have made an asset swap with Total for Hild and Valemon. And all of these transactions I think should be seen in a strategic as well as in a value creation perspective for Statoil.

If you look at this slide, I think most of you will agree that the portfolio of projects, major projects that we now have in the planning and execution phase, is a big asset for Statoil. And our total NCS project portfolio is strong and represents more than 50 projects. And many of these, as you see here, will come into production before 2020, including the two new discoveries, Johan Sverdrup and Skrugard/Havis, whatever they will be named later.

We are developing big projects; that is true. But I think it's also important to highlight to you that we see significant, also additional IOR potential that will be an important part of how we develop the Company moving forward in Norway. And in 2011 we added 350m barrels through revisions and IOR activities at the Norwegian Continental Shelf.

Our ambition is still to deliver more than 1.4m barrels per day in 2020 from the Norwegian Continental shelf. And just to give you an idea of what I meant by the execution, 80% of those volumes are already either in production or projects that are already sanctioned. So I think that again underlines the importance of the execution part. In other words, in my conclusion and the way I see it, it's very good visibility about the potential of the Norwegian Continental Shelf towards 2020.

I would like to stress also, finally, and I think very encouragingly at the Norwegian Continental Shelf, that we are in the process of developing a new oil province in the northern part of Norway. I think it's fair to say that we see that a new industrial horizon is emerging. Projects coming on stream, new discoveries and also promising resource potential makes this a new core area for Statoil.

I think a few years back, when we spoke about our vision, it was a vision. I think now we can see very concrete projects coming on. The Skuld project was sanctioned in 2010, will come into production by the back end of this year. We are working to mature Luva that will come into production, according to our plans, in 2016. We are, together with the operator ENI, developing the first oil project in the Barents Sea. We have discovered or seen more resources at Snohvit, and is planning to take that one step further. And of course there will be a new big field development around the Havis/Skrugard area. So, no, it's not any more a vision; it's concrete industrial reality and concrete projects that we are executing on.

But there is more to come. We believe that the Barents has more to offer, also in the formerly disputed zone between Russia and Norway, and in the Norwegian Sea, North East. That means the area outside Lofoten. There are areas currently not open for activity. And you will know, at least those of you that are Norwegians, that we are working very hard to see whether we can make sure that we at some point can get access to that area as well.

Turning to gas, a subject of great importance to Statoil and also to the world's energy balance. In our view, and based on every analysis we see, the underlying fundamentals for gas is positive. And by that I mean that demand is expected to grow in all regions, as you see here. The resources are available on a global basis. The resources are more flexible than they used to be in the past. It's cost efficient, and of course it's more geared towards the climate and energy challenges. On that basis, it's hard to conclude in any other way than gas is a very, very important fuel for the future.

In the short term, the gas markets are undergoing some turbulence, both in Europe and in the US. And both the US and the European gas markets have been recently also impacted significantly by the milder weather. But the prices are volatile. And just to give an illustration, while the NBP day-ahead price was 60p a week ago, yesterday it was 93p due to the cold spell that we have seen over the last few days. So I think it speaks a bit about the fluctuality or the cyclicity, but also the importance of gas in being a flexible fuel to deal with such challenges.

In the US, however, as we see it, the current price level is more structural, as it is driven by the huge resource pool that has now been identified within shale gas. And we estimate that the prices will stay at a relatively low level for a decent period of time. However, this also makes gas more competitive and will flow more easily, we believe, into the electricity sector, replacing coal, and will also, I think, support the further use of gas in the industrial sector.



In Europe, I think it's important to look at the supply and demand balance. We see increased supply for the reasons -- or increased demand for the reasons I mentioned, but also a significant decline from indigenous production in Europe, if you exclude Norway from the European division or definition. And Europe has to, moving forward, as we see it, to compete with Asia for LNG resources, i.e. the marginal cubic meter of gas will have to compete, or will be competed for by Europe and Asia. And we still see a significant potential for gas in Asia, as the gas share of the energy mix is very low in Asia.

I think also it is important and significant that when the EU developed their road map for energy towards 2050, gas was given a prominent place in that vision. But as you know, the dynamics of the gas markets on Continental Europe are changing. There is a development towards a more traded, more liberalized market, in line with what we have seen in the UK for a number of years. New market structures are emerging and market players along the value chain gradually redefine and reshape their business model.

I tend to believe that Statoil and Norway has a very, very strong position in these changing markets, in the sense that we have huge gas reserves, we have the low-cost position because the geographic distance to the key markets are shorter than with our competitors, we have flexible assets, which is important, and also a fully integrated transportation system. We have also, and I think that is important and significant for Statoil, we have throughout the years built a significant and very strong commercial competence inside Statoil.

So I wanted to underline that we are not passive observers of what is going on in changing structures in the gas market in Europe. We are active and are actively reshaping our business model. Our strategy remains firm, and that is to maximize the value of gas, not maximizing the volume. We will continue to take advantage of the upstream flexibility and our cost position, and we will utilize and capitalize on the integrated transportation system. We will also take part in a modernization of the current long-term contracts.

Just to illustrate some of the initiatives that we have taken over the last few years, we have doubled the volumes that we are selling through alternative channels. That means sales in the traded markets and also direct sales to bigger industrial clients, regional and local distribution companies, and also power producers. And we will continue to expand on that strategy, in order to gain more flexibility in terms of market outlets. And of course we will continue to arbitrage and create value through pushing LNG to the market that is willing to pay the highest possible prices.

On the current situation with our bigger clients, I would like to say that with most of them we are in a commercial dialogue. Our goal is to find suitable solutions for both parties, reflecting the importance of gas in the future energy mix, moving forward. And we believe that long-term contracts will be an important part of the longer-term picture also in the future, but will most likely take different shapes and forms, depending on the interests and the positions of the different clients and our position.

Earlier, I alluded to how we think about portfolio management, and you see here the key drivers. Why we think that is important is to secure long-term growth, is to have more influence and control, and it's also to ensure that we at all times have financial flexibility.

We have been quite active the last few years. Internationally, we have divested 40% of the oil sands business, as well as the Peregrino business, I think at good prices, reflecting the value of the work that we have done and the quality of the assets. We have entered into Eagle Ford with Talisman and acquired Brigham company that has a position in the Bakken area.

And in Norway, we have IPO'ed the SFR business, the retail network. We have sold on most of our position on the pipeline systems in Norway, because we felt that we could get a higher return by putting the capital into the upstream business. We have increased our share at Snohvit. And I just spoke about the deal that we made with Centrica, where we went out of some of the assets that had higher value for them than for us.

We believe that these transactions have been important in terms of shareholder value creation, in terms of high-grading the portfolio, strengthening the strategic profile of Statoil, and also given us even more financial flexibility than we had. And all together, we have increased the resource base with roughly 500m barrels through these transactions over the last few years.

I think you should expect that we will continue to be active in terms of portfolio management. I believe that this is part of how we should create value for our shareholders moving forward also, in a very dynamic industry.



Moving to the US onshore part, over the last years we have seen almost a revolution in the US in terms of unconventional resources. I think it's now a common view that the US will be self-sufficient with gas for many, many decades into the future. I think it was significant that Obama, to my knowledge for the first time, in his State of the Union speech a couple of weeks back, underlined the importance of shale gas resources.

I believe that we have positioned ourselves in a very strong -- with a very strong portfolio in the US, in terms of cost competitiveness and also by building a portfolio that has a good balance between gas, liquid products and also pure oil, as we are doing in the Bakken area. And we believe that those resources has a potential of producing around 300m -- 300,000, sorry, barrels per day by the end of this decade and beyond.

We have taken a stepwise approach and an industrial approach, by first entering into a partnership with Marcellus. Chesapeake is the operator. The next move was to go into a liquid area with Talisman, where we have the option to operate from next year. And then we moved in to take the operator position at Brigham, through the very strong Brigham organization in the Bakken area.

Current gas prices does not lend itself to massive drilling of production wells in the dry gas area of Marcellus. On that basis, the activity level is now reduced and we will employ a lower number of rigs for value creation reasons, as I think you will understand.

But over the last few years the activity level have been high, and we have close to 300 wells in production and more than 400 ready, pending tie-in on tracking -- or fracking. And I would like to state again, as I said in New York, that initial production rates are very, very encouraging and better than we expected at the time of the acquisition.

The majority, and this is important, the majority of our new production in 2012 will come from wells already drilled in Marcellus, and thus not be much influenced by the current low gas prices. Most of the wells drilled over the last -- the past two years have been hold to acreage drilling, and we now have an inventory of drill-ready locations, i.e. pads, exceeding 2,000 wells. These can be drilled and brought on-stream at some of the lowest costs in the US. And we also continue to drill to hold acreage, to ensure that we can add significantly more production in the years to come, as the prices will adjust gradually.

In Eagle Ford, we have seen an increase in activity level. And why is that? Because we have moved more rigs into the liquid parts of the place, and we will continue to build production there. And of course we are working on the ramp-up of the Bakken part of the portfolio, as this of course is oil and currently with an attractive market.

I would like to end on a high note also by saying a few words about exploration. In terms of our performance in 2011, it is hard to conclude otherwise than that this has been a good year for Statoil. The strategy has delivered, in my view. That means early access at bigger scales, more focus on high-impact wells, and finally also exploiting the positions, the core positions that we have already, particularly in Norway and in the Gulf of Mexico.

There has been a lot of focus on Havis and Skrugard and Johan Sverdrup, that is important, also a very significant discovery in Brazil, Peregrino South. And I would like also to state from a value-creation perspective some of the nearfield discoveries that we have made in Norway, like Rutil and Krafla. They are very, very profitable as they are close to existing infrastructure.

We have also built the acreage portfolio, through access to the pre-salt area in Angola, to significant new acreage at Indonesia. And also, in Canada we have accessed new acreage, together with Chevron, in the Orphan and Flemish Pass, and also in the Beaufort Sea. You perhaps also saw that we made an agreement with Cairn the other day in Greenland.

We continue to invest in exploration, we continue to have a high activity level and we expect to drill roughly 40 wells in 2012. And the next three years we will drill, as we see it today, roughly 20 wells with high-impact potential.

Let me close, before I give the word to Torgrim. Energy demand is expected to grow, and in our view oil and gas remain an important part of the long-term energy mix, and our industry is fundamentally attractive. I think that is an important starting point. This is an excellent basis, but not a guarantee for success. And the industry is getting more and more competitive and complex, and therefore performance and how we execute on our opportunities is critically important.



In that perspective, I believe that 2011 was an important part of that, in the sense that we executed well in terms of operations, safety and efficient operations, through exploration and also in terms of project execution. As a consequence, our long-term guiding in terms of the 2020 perspective remains firm, i.e. producing more than 2.5m barrels per day. And we also make no changes to the short-term production target that Torgrim will speak more about just now.

So, thank you for your attention. I look forward to our session later. Thank you.

Torgrim Reitan - Statoil ASA - CFO

So thank you, Helge, and good afternoon, everyone.

In the fourth quarter we produced, as expected, 1.975m barrels per day. That is a 2% increase, mainly because we started and ramped up production. However, we also moved gas, as Helge said. This is of course -- this has of course contributed to reducing our production in the quarter, in the fourth quarter. So I will come back to this later.

We maintained a good performance for most assets on the NCS. We achieved a production of 1.39m barrels per day here. Those figures are impacted by elements that you already know, like reduced water injection at Gullfaks, riser issues, and also a delayed startup of the BP operated Skarv Field. And the decline rate on the NCS, that has actually been lower than 5% in 2011.

Internationally, we increased our production by 21% to 588,000 barrels per day. And during the year we started up Peregrino in Brazil, Pazflor in Angola and Leismer in Canada. And we also increased the number of producing wells at Marcellus and Eagle Ford in the US, and we increased production at Shah Deniz in Azerbaijan and in Salah in Algeria. So, all in all, these are record production numbers, internationally, for Statoil. So we are on our way.

We delivered strong earnings in the fourth quarter. Net operating income was NOK60.7b, and this is up 42%. And of course we benefited from high prices, but we also increased the oil production, we realized gains from divestments and we saw derivative gains from the gas trading activity. So our net income in the quarter was NOK25.5b, and that is up NOK9.7b in the fourth quarter.

We have made adjustments to reflect the underlying operations, like we do every quarter, and this time the adjustments are NOK14.8b. So that is rather easy to explain this quarter. It's related to the gain on the divestment of Gassled, of NOK8.4b, and we had a higher fair value of our derivatives of NOK5.1b. So our adjusted earnings before tax were NOK45.9b, and this is a 12% increase over the same period last year.

Taxes. Tax on adjusted earnings is 68% in the quarter, and the lower rate is mainly due to tax on the capital gains that is lower than the average tax rates, and also due to recognition of deferred tax assets in 2011.

Then, the full year. We delivered record net income, record net operating profit and also record adjusted earnings. This means also a record earnings per share, and that is NOK24.7 per share. The adjusted earnings before tax is NOK180b, and this is a 26% increase over 2010 or an increase of NOK37b. The reported tax rate for the full year was 63%, but based on the adjusted earnings it was 72%. And this is in line with what we said earlier. We said that the tax rate for the year would come in in the upper end of our range that we guide on, 72%.

Okay. Over to the segments. So we delivered NOK38b in adjusted earnings in Development & Production Norway in the fourth quarter. For the year as a whole, the number is NOK150b, and this is up 34%.

One thing I would like to mention is that we have kept the planned operating cost stable over the year, compared to 2010, in Norway, although we have ramped up production at Gjoa, Vega and Morvin.

In International Development & Production, we delivered adjusted earnings of NOK1.6b for the quarter, and this deserves some more explanation in depth. So this is a decrease in the result compared to the same period last year, and it is three main reasons for that.



First reason is that our international production is growing, and we have started up Peregrino, Pazflor and Leismer, and we have ramped up Eagle Ford and Marcellus. And startups comes with additional costs, and during the quarter this has impacted our operating cost by NOK1.2b. Also, there are high depreciations in the early phase of a field's life. This has increased the DD&A by NOK1.4b, and that is related to Peregrino and Pazflor. So these numbers, they will change as projects develop through different phases.

Second point is that we saw NOK1.5b in expenses related to claims from Angola and Nigeria related to PSA interpretations. This quarter was mainly an update on previous quarters.

Third element is that we had one-offs of around NOK500m this quarter in this segment, and part of that is expenses related to the Bakken transaction.

When it comes to International, I would like to draw your attention to the full-year figures for this segment. So, in 2011 we increased the adjusted earnings by 20% to around NOK17b. If you look at the underlying cash flow from operations from International, or the EBITDA, that was actually NOK33b for the full year. So last year we delivered significant and profitable International growth.

In Marketing, Processing and Renewables, we delivered solid earnings of NOK5.5b. And we delivered solid results despite lower refinery margins and reduced gas production. For natural gas, the increase is mainly because of high realized prices, and we also realized a higher margin on our gas sales, so our traders have done well. However, for the year, MPR earnings were down 25% to NOK11b. This is because of weaker trading results earlier in the year, a decrease in volumes of gas sold and lower refinery margins.

Finally, I would like to remind you that in 2012 the earnings from Gassled will be lower due to the divestments, so you're just aware of that and take that into account.

All right, then into the cash flow. Cash flow from underlying operations was NOK244b last year. In addition to higher prices or sales, the interests in the Kai Kos Dehseh Field in Canada and Peregrino in Brazil have contributed significantly. This was partly offset by the acquisition into the Bakken play.

I should mention that the Gassled transaction, which we completed in 2011 and accounted for, the money was not received by yearend. That money came into our account last week, so that proceeds will be part of the cash flow in the first quarter this year.

We have paid around NOK113b in taxes during the year. NOK108b of those are in Norway. We pay Norwegian taxes six times a year, and in the first quarter there will be one tax installment. So we have generated cash from underlying operations in 2011 of around NOK22b in net.

Let me change pace a bit. The value of our strong financial position has proven itself in these turbulent times, so we are prioritizing high financial flexibility. And I am comfortable with our financial position.

We expect to grow operating cash flow with around 10% from 2011 to 2012. This is based on normalized taxes and prices on the same level as we have seen in 2011. At an oil price of \$80, the cash flow will be \$5b lower at around \$17b. This shows the robustness in our operations.

And we will continue to invest with strict discipline. I previously said that we would invest around \$16b in addition to the acquisition of Brigham, and that is what we have done in 2011. For 2012, we expect around \$17b including Brigham. So I'll come back with further details later in my presentation. We are also growing our payout to shareholders. This is in line with our policy. And for 2011 we will propose a dividend of NOK6.5 per share.

So, we have a quite robust position, with a strong balance sheet and quite a bit of cash at hand. I said earlier in the year that we expected the net debt by yearend to be around 10%. Well, by yearend it was 21%. However, if we exclude the Brigham deal and the point that the Gassled cash was received in 2012 instead of 2011, it would have been 11%, so very close to the guiding. At the current prices, I expect net debt to drop from 21% to around 13% by yearend 2012.



We are now working on 150 projects, and over the last months we have added a number of new ones. This adds further to our comfort to our 2020 outlook. We will add around 2.3m barrels per day in new capacity, new production capacity over the next decade. And this will provide us with a solid growth in 2012 and all the way to 2020, and this will also enable a reserve replacement rate above 1.

And of course this capacity can't simply be added on top of the current production, because fields will reach plateau production at different points in time. But it demonstrates our ability to access new projects and bring them forward.

These projects I consider as very attractive and profitable, and they compete very well with projects across the industry. As an example, the average breakeven price for the 60 projects, the 60 projects that we are sanctioning between 2010 and 2012, is below \$50 per barrel.

So, realizing our portfolio will lead to strong returns. So this is growing profitably. We have the asset base, we have the technology, we have the financial capacity and we have the resources needed to make this happen.

I've earlier given you an outlook for our growth over the next decade, so we will deliver significant growth in 2012. And I see no need to change what we have said, but I want to highlight a few uncertainties for you.

So, as you know, we prioritize value over volumes in gas markets and gas production. And we can turn Troll and Oseberg up and down on a daily basis, so we can pick the best days to sell our gas. So we have deliberately tuned down gas production this summer, and also into the fourth quarter, so these fields have not produced at their capacity last year. If European production -- or excuse me, if European markets turns out to be soft during the year, you should expect that we reduce the production in 2012. And with today's prices, we will also put value over volume in the US as well.

I have also said that -- or earlier pointed to that developments that have impacted 2011 also will impact 2012. So the partner operated Skuld in the Norwegian Sea and Caesar Tonga in the Gulf of Mexico are both delayed, and this will have a negative impact for 2012. The riser issues are progressing, but are not fully solved.

And finally, we have done transactions during the year that will impact production in 2012. We have sold assets to Centrica. Expected yearly production in 2012 was around 30,000 to 35,000 barrels on those assets. And we have entered into the Bakken tight oil plays in the US, contributing positively to 2012 production.

So a lot is happening, but I see no reason to change our outlook all the time. So, as you understand, there is uncertainty to our estimates and things have happened, and that is why we use the word around. So we have said around 3% growth from 2010 to 2012. So, based on all these factors, ups and downs, there are risks to the estimate. And I would say that there are more risks to the downside than to the upside of this estimate, but it is well captured within what we say, around 3% growth.

At the end, I want to reiterate that we expect our 2013 production to be around the same level as our 2012 production.

Now let me explain how we maximize the value of our gas. In Statoil, we have an opportunity that not every oil and gas company has. We can adjust our production according to the prices we see in the market. We have the capacity, we have the permits, and we have the infrastructure in place, but we also have a highly flexible upstream system. So this enables us to create additional values to our shareholders, so we'll pick the periods with the highest prices and produce then. So these are examples of strategies used, moving production between periods to get better prices. So, over the last two years, we have created values around \$300m on these strategies.

So where do you find the result of this in our accounts? Well, you will find it three places. You will find it in the realized gas price, and in the fourth quarter you saw high realized gas prices. You will find it within derivatives, in the MPR segment. And it will lead to higher EBIT in -- on Norwegian Continental Shelf at a different point in time. So this is a dynamic picture and we make adjustments every day to maximize the value.

We continue to invest in growth, and we have stepped up our investments. And the total investment for 2012 is expected to be around \$17b, and the increase is driven by more projects being developed, not cost increases.



Over the next five years, around 90% of Capex will be upstream related. Of the upstream related investments, around 60% will go to fields with mainly liquid content, and 70% of our investments are going into Greenfield projects.

A lot of our investments take place in Norway, and I get a lot of questions about the Norwegian fiscal regime, and in particular the high tax rate. And yes, the tax rate on the NCS is high. On the other hand, there is a large difference between pre-tax and after-tax Capex. And due to depreciations and uplifts, we actually get back 93% of our investments as reduced taxes over the first six years. So we see the Norwegian Continental Shelf as an investment friendly area. So I must say that the Norwegian State gives and the Norwegian State takes, and I must say they are good at both.

As Helge said, we will continue with a solid and large exploration program, focusing on high-impact wells and accessing new acres that will ensure a lot of high-impact wells in the long term as well.

We are growing our resource base, despite significant divestments over the year. We can continue our current production for nearly 35 years, based on what we have today. But that is of course not our strategy. We have defined a RRR above 1 as our ambition, and we now see that the work -- hard work over several years starting to pay off. We have achieved both an organic and NCS RRR more than 1, and we have increased the oil ratio as well.

So we have made significant discoveries, we have sanctioned more than 500m barrels, and we have put new projects on stream. And increased recovery also plays a very important role into the reserve additions. And we have increased resources through acquisitions as well. Bakken contributes with around 400m barrels. So every day we produce more, we produce from our existing resources, but we add more than we produce and we intend to keep on doing just that.

We are progressing as planned. We expect to spend \$17b in 2012, including investment in Bakken. We also maintain an exploration level of around \$3b for 2012, and this will give us around 40 wells this year. And we expect to drill around 20 high-impact wells from 2012 to 2014, and I know a lot of you are watching our performance here. I see no reason to change the production outlook, but I just want to remind you on the uncertainties discussed earlier, which we also have discussed on earlier occasions.

So, 2011 was a record year for Statoil in many respects. We are taking significant steps and we are on our way to produce more than 2.5m barrels per day in 2020.

So, thank you very much for your attention, and then I'll leave the word to you, Hilde, that will guide us through the Q&A session. So thank you.

QUESTIONS AND ANSWERS

Hilde Nafstad - Statoil ASA - Head of IR

Thank you very much, Torgrim and Helge. We will now turn to the Q&A session. For this session, Helge Lund and Torgrim Reitan will be joined by the Senior Vice President for Accounting and Financial Compliance, Kare Thomsen. We will take audience questions both from the audience and over the telephone. I will first ask operator to explain the procedures for asking questions over the telephone, and then we will start out with the audience. Operator, will you please explain the procedure now?

Operator

Thank you, Ms. Nafstad. (Operator Instructions). Thank you, Ms. Nafstad.



Hilde Nafstad - Statoil ASA - Head of IR

Thank you very much. We will then start out with questions from the audience. We will be passing microphones. And I will ask you to please state your name and the name of your company, before you pose your questions. So we will start out with John Olaisen, and then Trond Omdal afterwards.

John Olaisen - Carnegie - Analyst

Thank you. It's John Olaisen from Carnegie. A lot of your competitors on the Norwegian Continental Shelf have started complaining about constraints among some suppliers, maybe in particular on the rig side. Is that something you are seeing as well? Could that be a constraint for you over the next few years, and how would you address that issue if that is an issue?

Helge Lund - Statoil ASA - President & CEO

I think, as I see it, this is a global oil and gas issue primarily, that in most areas of the segment, the industry, is running more or less at full capacity. I think we would expect that to continue. We expect the upstream investments to continue to increase on a worldwide basis, perhaps in the area of 10% to 15%. That will, I think, put additional pressure on both competence, human capabilities and capacity, and also on equipment.

I refrain from going into discussing particular competitor dynamics within individual segment, given our role at NCS, but the general direction of your question I think it's fair to confirm there are issues related to bottlenecks on a worldwide basis for the oil and gas industry.

I think we have historically at Statoil been good at getting the equipment that we need in terms of taking a long-term view. We will continue to do that. You have seen also that we have changed the way we work on not only fast-track projects but also in terms of addressing the rig needs, including the category D approach, where we have taken a longer-term view.

John Olaisen - Carnegie - Analyst

Why don't you increase exploration more in 2012 compared to 2011, given the success you had in '11?

Helge Lund - Statoil ASA - President & CEO

Well, this is reflective of the program that we have. And we are already at a significant level, and we feel that this is the right level compared to the set -- or the portfolio we have right now.

Hilde Nafstad - Statoil ASA - Head of IR

Next question goes to Trond Omdal.

Trond Omdal - Arctic Securities - Analyst

Trond Omdal, Arctic Securities. You've said a couple of years ago, on Russia, that unless Russia invests quite heavily both on Jamal and Shtokman they might struggle to maintain their export capacity to 2020. The recent turmoil and constraints on exports, is that a sign that Russia is struggling with maintaining that, or is it more a force majeure?

The second thing, I assume -- do you see that also affecting the customers in terms of their negotiation strategies and their view on oil links versus that the spot link isn't necessarily -- more spot isn't necessarily always lower prices?

Helge Lund - Statoil ASA - President & CEO

I cannot comment on other people's behavior in the gas market in Europe, for reasons you will understand. But I have said on earlier occasion, I am going to repeat it now. As we see it, and due to the reasons I explained earlier, with indigenous production in Europe declining and with anticipated increased demand for gas, I think Europe will depend on higher-cost field developments, including those in Russia. So there is a structural need in the market, in our view, on those kind of projects to fulfill the needs of Europe. And I think that is further underlined by the increasing competition for energy resources from Asia and elsewhere.

In terms of the current discussions with some of the major clients and how the structure of the markets will develop, we believe it will definitely move in a liberalized direction. We believe that there will be a continued significant element of long-term contracts. Exactly how those contracts will be structured is -- will probably be a differentiated picture. I cannot speculate on individual situations now. But I would say that it is a reason that these contracts were developed, in the sense that it created not only security of demand for us but also security of supply for the client. So it's not obvious that renegotiations necessarily will lead to a fully liberalized and contract by contract sort of attitude.

The current contracts, of course, as you know, also come with some flexibility that we historically have given away that we would like to claw back, because there is a value of that flexibility. So the market will change, but I think there will be a significant element of long-term contracts still.

Trond Omdal - Arctic Securities - Analyst

Just a follow-up. Given the low -- there are of course very low gas prices in the US currently, but the forward curve now seems to narrow the spread, and the spread seems to almost discount exports. There seems to be a \$4 per million btu spread, which seems to be somewhat equivalent to what BG is paying on re-gas charges, liquefaction and transport. But are there additional strategic benefits of Statoil actually actively participating in LNG exports from North America, or is it sufficient that other players are doing that to narrow the spread?

Helge Lund - Statoil ASA - President & CEO

Well, as a starting point, I really like LNG in the sense -- in terms of flexibility. Having said that, the way I look at it in North America is that in Western Canada, where you have huge shale resources that otherwise would have been stranded gas, it's probably likely that there will be developed LNG facilities, because the gas has no alternative use and therefore no alternative value.

In terms of investing in LNG liquefaction capacity in the US, that has an alternative market, then you need to feel, as we see it, reasonably confident that the spread between Europe in this case and the US, if we take that as an example, on roughly \$4 per million btu, then you need to have some guts to do that. And of course for -- if there is sufficient LNG capacity -- export capacity being built in the US, it can eventually of course impact the US market and perhaps narrow the spread between Europe and the US.

I think there is also other questions related to that, including how much export capacity that the US authorities actually will sanction, in terms of the impact it will have on the gas market.

So I think these are the reflections we have on this. We see that some projects are maturing, but it is not necessarily so that we will take part in that.

Trond Omdal - Arctic Securities - Analyst

But what I'm actually asking, is that an alternative way to get access -- is it an alternative way to get access to the Asian LNG market for Statoil with equity gas?

Helge Lund - Statoil ASA - President & CEO

Yes. But if you participate in that, then you really have -- as I said, you really have to believe in a consistent spread over many years in the area of \$4 per million btu. These are rough numbers, but just to give you an indication. And that I think is the risk/reward judgment that we and other players have to take. And here I think players will think differently about that.

Hilde Nafstad - Statoil ASA - Head of IR

Next question goes to Haythem.

Haythem Rashed - Morgan Stanley - Analyst

Hi. Haythem Rashed from Morgan Stanley. Thank you very much for the presentation. Three questions, if I may. Firstly, just on the contracts, you mentioned a modernization of the contracts portfolio. Could you just provide a little color around this?

And I guess related to that, if you could comment on whether any significant contract renegotiations have taken place in the last few months, or is that something that you are seeing?

Secondly, Greenland, if you could provide an update there, post obviously the acreage you've picked up from Cairn, in terms of whether you see this as the starting point of increasing your foothold there in terms of drilling activity and such like.

And then thirdly, just on production, apologies if you've already provided this number, but if you could provide an estimate of the impact to gas production in 2011 from that value optimization process that you talked about. And I guess, if conditions remain similarly weak in 2012, would that be a sensible number to think about in 2012 in terms of volume impact? Thank you.

Helge Lund - Statoil ASA - President & CEO

Well, Torggrim, he has been a gas trader before this job, so he will -- I'll give the question to him. First, on the contracts, I think you will understand that we cannot give much color to the current discussions that we have with our clients. We discuss with them, and at this stage not with the markets. But I dwelled a bit and reflected a bit on some of the forces impacting those discussions, and I think it's not the right thing to do to speculate in the outcome. I think there is an interest on both parties to try to find solutions that are more forward looking and directed to the structure of the market we see moving forward.

In terms of Cairn, the strategic logic of this from our side was that generally we believe that there will be an increased focus on Arctic areas over the next few decades. I think we have a natural role to play in that. We had already taken two licenses there, together with Shell and GDF, and this license that we picked up here with Cairn is closely adjacent to this. So there is -- that is the thinking behind that.

You will -- you should expect that we continue to be active generally in Arctic or harsh offshore environments. You have seen us taking positions in Alaska, in the Beaufort Sea recently, on the Flemish pass and Orphan Basin, and also we are active in the Barents Sea. Of course, we feel that our experience in Norway leads us to those opportunities. There is a certain element of long-term land grab here also in our thinking.

Torggrim Reitan - Statoil ASA - CFO

On the -- thank you for the question on the gas movement. I would have loved to tell you the exact number, but then I will be beaten up by my traders when they get back, because they don't want to give that sort of information to the market. I'll give you some hints on the size of it.

This activity typically is done during the summer period, from April to October. During winter, normally Troll is running on full speed. So the movement related to Troll is typically in the summer months. In addition, Oseberg can be produced -- the production capacity on Oseberg can be



produced over a few months, so that will typically be a winter production and so on. So we have done a bit at least, quite a bit, so it is sufficient to really make a difference into the production for the year.

When it comes to 2012, the impact can be absolutely noticeable and actually distort the production for 2012. When it comes to 2012 on other terms, there is quite a lot of startups, exciting startups, over the year. Skarv is coming, production capacity to Statoil around 50,000 barrels per day. Marulk is another one, 10,000. We have Skuld and Visund South, which actually has a capacity of 65,000 barrels on our hands. Caesar Tonga with 12,000, PSVM in Angola with 20,000, Kizomba Satellites around 10,000. So it's a significant amount of new capacity and production coming during the year, so it's going to be a very interesting year production wise for Statoil.

Hilde Nafstad - Statoil ASA - Head of IR

Next question goes to Carl Christian, and then I have Anne.

Carl Bachke - RS Platou - Analyst

Hi. Carl Bachke, RS Platou. You are indicating a gross peak production in Johan Sverdrup of around 500,000 barrels per day. Is that peak, or is it within the timeframe that you are indicating towards 2020, and then also then probably phasing in other structures after that?

And just second question, is the \$17b in Capex including any capitalized exploration?

Helge Lund - Statoil ASA - President & CEO

On the plateau or the Johan Sverdrup, it is, as far as I recall, estimated plateau production. So it's not before or after 2020, so it's more to try to give you an estimate. This might be a wrong estimate. I think it is a reasonably good estimate. It's what we have today.

Torgim Reitan - Statoil ASA - CFO

When it comes to the \$17b, yes, it includes capitalized exploration. What we normally assume is that we capitalize a third, 30% to 35% of the exploration. In 2011, the capitalization was actually higher, due to discoveries.

Hilde Nafstad - Statoil ASA - Head of IR

Next question goes to Anne.

Anne Gjoen - Handelsbanken Capital Markets - Analyst

Thank you. Anne Gjoen, Handelsbanken Capital Markets. Three questions. First, since you're selling down in Gassled, could you tell the earnings contribution from Gassled and EBIT in fourth quarter and for the full year 2011?

Second question, in relation to reserve replacement ratio and also the increase in your resource base, is it possible to give a split between the increase due to discoveries, acquisitions and revisions?

And finally, I think you mentioned but sorry I didn't quite catch it, about the international cash flow. Could you tell which countries are now having a positive net cash flow?



Helge Lund - Statoil ASA - President & CEO

Well, if you take the Gassled and RRR on the International cash flow, what Torgrim said was roughly NOK32b on EBITDA numbers from the International Division. And of course, if you look at when we were in the investment period, last decade and the decade before that was primarily in Nigeria, in Angola, in Azerbaijan and in Algeria. So I think those are good illustrations of where most of the cash flow comes from. And then we are in a buildup phase, as you know, in Brazil and in Gulf of Mexico and generally on unconventional. So I think that gives a reasonable reflection around that.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you. On Gassled, so what will happen is that mainly all of the cash flow and earnings from Gassled will not be part of the 2012 going forward. In 2011, this has contributed with somewhat slightly above NOK1b in earnings per quarter, so it's a little more than NOK4b in the year in pre-tax earnings related to Gassled. This is in the 78% tax regime, mostly. There are some of it on Karsto that is on the onshore tax part.

That means that the MPR segment, going forward, will be harder for you to estimate earnings related to it, because this was a very stable result from quarter to quarter and year to year. So what is in that segment now is the oil and gas trading activity, gas marketing, refineries in general. So it will fluctuate more than it has done earlier, just so you are aware.

When it comes to the split on the additions on the reserves, I won't give you explicit numbers, but on Brigham around 400m in addition. But if you look at the organic reserve replacement rate, that is above 1. If you look at the additions, it is actually quite a bit from increased oil recovery this year, which is very positive. Those are extremely profitable barrels. And then it actually leads to that the decline rate for the NCS over the years is actually less than 5% this year, so this hangs together with that.

Hilde Nafstad - Statoil ASA - Head of IR

Okay. Thank you. We'll now turn to your questions from our audio conference. And the first question comes from Michael Alford with Citigroup. Please go ahead, Michael.

Michael Alford - Citigroup - Analyst

Good afternoon. A couple of questions. Firstly, on the unconventional business, I think you gave, if I heard correctly, a target where you would like to get to -- on production by 2020 I think of 300,000 boe per day. Could you maybe give a bit more color as to what that split is versus the gas and the liquid rich and liquid plays in the unconventional, and also maybe a bit more color as to what you would expect in 2016 from that business, again the split between gas and the liquid rich plays?

And then, just secondly, just on exploration, I think you talked about 20 high-impact wells over the next few years. Could you maybe give a bit more color as to what we should expect from exploration over the next six months, and maybe any indications of some high-impact wells that you'll be drilling within the portfolio? Thank you.

Helge Lund - Statoil ASA - President & CEO

Thank you, Michael. A couple -- I'll take the exploration part. Perhaps you'll make a go at the gas/oil thing, Torgrim.

On exploration, roughly as you indicated, next three years 20 high-impact wells, as we see it today. We have a couple of them in Norway, King Lear and Crux. One more, I think. I cannot recall them. And then we are drilling in Tanzania as we speak. It's also a high-impact well, on the east coast of Africa. We are drilling also wells over the next few years in Indonesia and Brazil and Gulf of Mexico. So those are the key areas.

Torgrim Reitan - Statoil ASA - CFO

All right. On the unconventional and the split, I will not give an exact split but I will give you some directions to it. First, on Marcellus, the rig count is reduced slightly. But there are -- we have 400 wells waiting for transportation out to the interstate pipelines, the high pressure systems. Those are marginally cost wise extremely cheap to put into production. So those are there. There will still be quite a bit of rig activity in the area. So we find what we have actually quite encouraging, when it comes to flow rates and marginal costs.

But I think there is one thing that is extremely important to bear in mind as well, and that is that you have to take care of your gas. And that is what we have done in Europe for 30 years. We have marketed from the places where we get the best paid, where we can get the best money out of the gas. So we are going to do that as well in the Marcellus.

So we were the first company that secured transportation capacity to Toronto, to Canada. So we are selling gas into the Toronto area. And we have that capacity and we took the full capacity, and there's a lot of other companies that really would like to ride on our back on that one. So that -- in that area, the price is \$0.50 higher than on the southern side of the border, which again is higher than the Henry Hub. So, with low prices, value chain -- value creation is extremely important.

When it comes to the liquid parts, we are encouraged by the Brigham acquisition. We based the acquisition on a settled number of rigs, and we have plans to increase the number of rigs in the Bakken play.

So, based on what we have said earlier, probably somewhat reduction in gas and some increase on the oil side, in the longer perspective. The good thing about the unconventional in the US is that we are able to adjust.

Helge Lund - Statoil ASA - President & CEO

I think if you go back and look at the statements when we moved into these resources, you will see a reasonable indication that it's still valid in terms of production. Short term, I don't estimate that what is happening in the gas market has a meaningful impact on the production numbers, because we already have them producing the wells at a very, very low cost. Of course, longer term it will depend on how the gas price is developing, and we have indicated all together on these three resources around 300,000 barrels per day, as you suggest.

Michael Alsford - Citigroup - Analyst

Okay. Thank you very much for your help. Thanks.

Hilde Nafstad - Statoil ASA - Head of IR

Next question goes to Jason Gammel from Macquarie. Go ahead, please, Jason.

Jason Gammel - Macquarie - Analyst

Yes, thank you very much. I just had a couple of questions on the forward progress for Johan Sverdrup. First of all, do you view the need for any more appraisal wells over the set of discoveries before you'd be able to move into front end engineering?

And can you also talk about if, when you move into front end engineering, whether you'll be operating that process?

And finally, where are we at in terms of unitization discussion?



Helge Lund - Statoil ASA - President & CEO

Well, there will be more appraisal wells drilled at Johan Sverdrup. We will attack this as a partnership, so that we can have an efficient project development and start that as early as possible. We have indicated that we believe that we are able to get this up and producing, not at full capacity, but starting producing in 2017. That is still the plan.

And it's very important that we distinguish between efficient project development and the unitization process, which is a hard core negotiation. The other is where the partners are to work together to make an efficient project development.

The operator issue is not yet decided, but we have signaled that this is in our core area, it's our core capabilities, it's close to where we have the majority of our resources. And we have signaled the clear ambition and intent to fight for that operatorship, and that's still valid.

Jason Gammel - Macquarie - Analyst

Thanks very much. Just a quick follow-up on that, would you still view 2013 as the most likely timeframe for a final investment decision?

Helge Lund - Statoil ASA - President & CEO

Well, I think we need to come back to that, but it says -- it goes without saying that if you are going to have it producing in 2017, we have to be efficient in the front end part of the project and make sure that we are efficient in the early phase of the project, to be sanctionable within that timeframe.

Jason Gammel - Macquarie - Analyst

Thanks very much.

Hilde Nafstad - Statoil ASA - Head of IR

Next on the list, we have Brendan Warn from Jefferies.

Brendan Warn - Jefferies - Analyst

Thanks. Just a couple of questions. Just one, if I can get a clarification on what you said about the rig count in the Marcellus. You had about 36 rigs operating back when we were in -- up in Canada. Just to confirm what that's come down to, and what sort of number of wells are being drilled still to hold acreage.

Just second question, I guess relates to your operated Brazilian field Peregrino. I appreciate that production looks to be ramping up well, but can you give us some insights on operating costs and some of your production -- I won't use the word issues, but just that you're the only disclosable operator from that field?

And just lastly, I guess in terms of vision, positioning in Asia, if you can make any comments. Obviously, with coming into a strong balance sheet and your strong position in Europe, if you can make any comments on what you've seen -- what would it look like if you'd enter a region such as Asia in terms of gas?



Helge Lund - Statoil ASA - President & CEO

Well, when it comes to Peregrino, I can confirm that the field is ramping up according to our plans. It is a good field. It has been complex, I think, project development, but we -- it was anticipated. We, as you may know, built a very complicated value chain also, including using the terminal that we have at the Bahamas to blend. All of that is working well.

And we do not give specific production numbers on individual fields. But of course, one of the advantages with Peregrino is that it is outside the very strict local content requirements that we have on -- that you have on the new pre-salt resources. So the flexibility we have in using the market in the best possible way is bigger.

When it comes to Asia, I think you can think about this in different ways. Indirectly, Statoil is already heavily exposed to Asia, even though we have a small physical position, because both our key products, oil and gas, is heavily exposed to Asian markets, and more and more also on the gas side. We have steadily but regularly built up partnerships in Asia. We have a Chinese partner in Brazil. We have a Thai partner in Canada. We have a trading organization in Singapore. We have storage in Korea. We met with our partner there earlier this morning.

We will not enter into Asia for the sake of Asia. We will enter it on the upstream side, if we find a project where we think we can add value and create value. And that can be either through exploration or through schemes where we can use the value chain style of experience we have, particularly on the gas side. So that is -- I think is our direction I can give.

Perhaps you want to comment on the rig side on Marcellus, Torgrim.

Torggrim Reitan - Statoil ASA - CFO

Yes. So that is slightly reduced. So the number is around 30 rigs currently, and I expect it to be reduced somewhat further towards the yearend, but still sufficient to take care of the activity that we want to do currently there.

Brendan Warn - Jefferies - Analyst

Okay. Thanks for that, guys

Hilde Nafstad - Statoil ASA - Head of IR

The next analyst is Nitin Sharma from JPMorgan. Go ahead, please, Nitin.

Nitin Sharma - JPMorgan - Analyst

Hi. Two questions, if I may, please. The first one, in relation to US unconventional resource, your growth in that space has been aggressive in the last few years. Looking forward, should we now expect more inorganic growth, or are you focusing now more on development of what you already have? So that's the first one.

The second is in relation to the provisions for disputed PSA provisions that you have in your D&P International. Could you please give us more color on these provisions, i.e. timeframe for these disputes, the mechanism for resolution? And should we be -- in near term expect a recurrence of these disputes, i.e. these provisions, in coming quarters? Thank you.



Helge Lund - Statoil ASA - President & CEO

I'll leave the PSA question to Torgrim. He is the PSA expert. I can say, on US conventional, the approach that we have taken is that we believe that these resources will be important for the long-term energy supply and mix. We want to have an industrial role. We have done it step by step, as I said earlier in my presentation.

I think you should expect, moving forward, that we have a key focus on high-grading depositions we already have, making more out of the resources in terms of operational efficiency, using technology, making even better in terms of HSE practices, and so on and so forth, and then that you should expect us to continue to build land positions as we are doing, have been doing historically, but that will be small step by step sort of transactions that will not be visible on a corporate level. But that is to build a resource base beyond 2020 / 2025.

Torggrim Reitan - Statoil ASA - CFO

Okay. On the production sharing agreements, this is related to Angola and Nigeria. So, first a few words on those contracts. Those are contracts between the companies and the country, and it stands above the law in the countries. So it is there to protect us, to facilitate investments into regimes where stability is asked for.

These assets we have in these countries are generating fantastic cash flows and amazing profitability. So the governments in those countries are -- would like to take more of the profits than is justifiable through the production sharing agreements and so on. And we dispute that, and so on, so we don't think this is right. So what we have done in the fourth quarter, accounting wise, we take a careful approach to this. So we have made accruals related to these two elements, NOK1.5b, and that covers a long period of time. So that is for 2011, and also before 2011.

And then you asked should we expect a similar -- what should we expect going forward. Well, you should expect us to be careful when it comes to how we treat this in our accounts. So if this is not resolved, then we will keep on accruing for this going forward.

Nitin Sharma - JPMorgan - Analyst

Thank you.

Hilde Nafstad - Statoil ASA - Head of IR

We have Lucy Haskins from Barclays Capital, and after that we will unfortunately have to draw the line. Please go ahead, Lucy.

Lucy Haskins - Barclays Capital - Analyst

Good afternoon. Could I ask a follow-on question in terms of your exploration plans for this year? Do you have a feel for what risked and un-risked resources you may be tapping through your high-impact wells? And perhaps a little bit more granularity in terms of whether we might expect a result from the King Lear prospect that you suggested would be one of the big plays for you.

And then the second question is actually about Iraq, and whether your enthusiasm for that play is beginning to ebb somewhat.

Helge Lund - Statoil ASA - President & CEO

On Iraq, I cannot comment specifically on the news report. What I can say more on a general basis is that all our project has to fulfill our investment criterias financially, and also other important criterias to us. And that project is of course all the time valued on the same basis as other projects in our portfolio.

In terms of King Lear, I cannot recall exactly when -- what's the pace of that. Perhaps you know, Torgrim.

Torgrim Reitan - Statoil ASA - CFO

Well, King Lear is spudded. That is going on. So that we will revert to that in due time.

Helge Lund - Statoil ASA - President & CEO

It's a complex well.

Lucy Haskins - Barclays Capital - Analyst

(Technical difficulty) you may be trying to access through your exploration program this year?

Helge Lund - Statoil ASA - President & CEO

Lucy, excuse me, could you repeat that?

Lucy Haskins - Barclays Capital - Analyst

Sorry. What would be the risked and un-risked resource number that you will be hoping to target through your exploration program this year?

Torgrim Reitan - Statoil ASA - CFO

Well, in general, we won't give un-risked and risked numbers for this year alone. What we did was in New York, in June, where Tim actually put out what is the risked resources and un-risked potential in the portfolio that we have at hand currently. And as far as I recall, it was 30b in un-risked and 6b barrels in risked resources. So that is some key numbers.

What is extremely important to us is to continue to access new acreage that can fuel high-impact wells for the long term. And you know what we have done this year is acreage in Angola, pre-salt, Indonesia, Surinam, Norway, Canada and -- which are the main areas. So, we'll see.

Lucy Haskins - Barclays Capital - Analyst

Well, keep up the good work, anyway, in terms of the exploration successes of last year.

Helge Lund - Statoil ASA - President & CEO

Thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you very much, Lucy. And that will have to conclude our Q&A session. Today's presentation and the Q&A session can be replayed from our website in a few days, and transcripts will also be available. Any further questions can be directed to the Investor Relations department.

And I will now hand the floor over to Helge Lund, who will make a few closing remarks.



Helge Lund - Statoil ASA - President & CEO

60, 70 minutes, no long closure. Just very quickly, our aim was really to reconfirm the strategic direction of the Company, try to provide more granularity and facts on where we are in terms of executing the plan. Hopefully we have sprung no surprises on you during this session.

My assessment of where we are, as the CEO in Statoil now, is that 2011 was a good year for Statoil. It was more stable operationally. We improved well on safety and had good progress on the strategic front. Perhaps the most important thing that happened for us last year was the fact that we succeeded in exploration, and we turned a corner when it came to reserve replacement. And I think that gives us a good basis for executing on the plan.

And I think, if I can use that terminology, we are even more confident now that they can deliver on the 2020 perspective. This has not any more to do with resources. It has to do with our ability as a management team and with our people to execute on that plan.

So that is where we are today. So thank you for your attention, and hope you will continue to follow the Company. Thank you.

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