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STL.OL - Q3 2013 Statoil ASA Earnings Conference Call

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OVERVIEW:

Co. reported 3Q13 adjusted earnings of NOK40.4b.



CORPORATE PARTICIPANTS

Hilde Nafstad *Statoil ASA - Head of IR*

Torgrim Reitan *Statoil ASA - CFO*

Svein Skeie *Statoil ASA - SVP, Performance Management and Risk*

Orjan Kvelvane *Statoil ASA - SVP, Accounting and Financial Compliance*

CONFERENCE CALL PARTICIPANTS

Trond Omdal *Arctic Securities - Analyst*

Morten Evjenth Lind *Fondsfinans ASA - Analyst*

Alejandro Demichelis *Exane BNP Paribas - Analyst*

Theepan Jothilingam *Nomura - Analyst*

Haythem Rashed *Morgan Stanley - Analyst*

Jon Rigby *UBS - Analyst*

John Olaisen *ABG Sundal Collier - Analyst*

Peter Hutton *RBC Capital Markets - Analyst*

Michael Alford *Citi - Analyst*

Rahim Karim *Barclays - Analyst*

Oddvar Bjørgan *Sparebank1 - Analyst*

Robert Kessler *Tudor Pickering & Holt - Analyst*

Iain Pyle *Sanford C. Bernstein - Analyst*

Blake Fernandez *Howard Weil - Analyst*

PRESENTATION

Hilde Nafstad - *Statoil ASA - Head of IR*

Ladies and gentlemen, welcome to Statoil's third quarter earnings presentation. My name is Hilde Nafstad, and I'm the Head of Investor Relations in Statoil.

This morning, at 7am CET, Statoil announced the results for the third quarter of 2013. The press release and presentations for today's event were 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.

Please make special note of the information regarding forward-looking statements, which can be found on the last page of the presentation.

Today, Statoil's CFO, Torgrim Reitan, will go through the earnings and outlook for the Company. The presentations will be followed by a Q&A session. We will aim to end the conference, at the latest, at 2.30pm CET. Please note that questions can be posted by means of telephone, but not directly from the web. The dial-in numbers for posing questions can be found on our website.

It is now my privilege to introduce Statoil's Chief Financial Officer, Torgrim Reitan. Please go ahead, Torgrim.

Torgrim Reitan - *Statoil ASA - CFO*

Thank you, Hilde. Good afternoon, and good morning to all of you in the US.



In the third quarter, Statoil delivered adjusted earnings of NOK40.4 billion. This is in line with the same period last year.

Net operating income was positively impacted by gains from the Wintershall transaction; however, impairments on the refineries and commercial provisions impacted financial results negatively.

We delivered good operational performance in third quarter, producing, as expected. In fact, underlying growth was around 6% if we adjust for the divestments we have made, and the redetermination at Ormen Lange. The transactions created significant value, and I have, of course, no regrets in seeing the production being impacted as a consequence.

Ramping up new production on the NCS, as planned; and carrying out high maintenance activities; and we maintain good cost control, and capital discipline.

And then, we produced record volumes from our portfolio, outside Norway.

We continue to deliver on our exploration strategy. We announced a new high impact discovery offshore Canada. This is the world's largest oil discovery this year. It is our 10th high impact discovery in 30 months, and it's our third oil discovery in the Flemish Pass basin. Our Chief Explorer, Tim Dodson, and his people, are doing very well.

We continued to shape our portfolio, announcing divestment of assets in Norway, and in the UK, to OMV; \$2.65 billion in proceeds, an expected gain of \$1.4 billion. This transaction will also reduce our future Capex exposure by \$7 billion, and most of this is before 2020.

This demonstrates the value of our portfolio. Recent asset divestments in the North Sea price our assets at around 50% premium to Wood Mackenzie estimates. We expect to close the OMV transaction shortly.

And finally, we have further strengthened our financial position in the quarter, generating strong cash flow and reducing our net debt.

Our reported result: Our reported net operating income is down slightly compared to the third quarter last year. We booked a gain of NOK6.4 billion on the sale of assets to Wintershall. However, we also booked NOK5.6 billion in impairment losses, mainly related to our refineries; and then, we made commercial provisions that negatively impacted the results by NOK4.3 billion.

But, as always, we make adjustments to reflect the underlying business. Our adjusted earnings increased slightly. Liquid prices are up 4%, and we produced 4% more. This was partly offset by lower average gas price, and increased royalties, and depreciations.

We continue with stable underlying operating costs. This is as expected, and something that I watch very closely. I will come back to our costs in further detail later.

The tax rate is 70%, and within our guided range.

We delivered adjusted earnings after tax of NOK12.1 billion, and this is slightly up from the third quarter last year.

In the third quarter, we produced as expected. We carried out a high maintenance activity, and that went just as planned.

Production in Norway was slightly down compared to the same period last year, but this was impacted, as you know, by the divestments we have carried out to create more value.

The Wintershall transaction closed at the end of July, and impact production by 40,000 barrels per day from closing.

In total, the transaction with Wintershall and the redetermination at Ormen Lange, reduced production by around 60,000 barrels per day in the quarter. If we adjust for that, we see an underlying solid production growth for Statoil.

Outside Norway, we continue to ramp up new production, producing at a record level.

As we have earlier said, we expect to produce less in 2013, for the year as a whole, compared to last year. You know this is due to the divestments, gas optimization, and the redetermination at Ormen Lange. I will come back to this when we talk about the outlook later on.



So, then let's take a look at the various segments. From our Norwegian business, we delivered adjusted earnings of NOK30.6 billion. This is similar as the same quarter last year.

We largely offset the natural decline on mature fields and divestments by ramping up production, such as Skarv in the Norwegian Sea. This increases the DD&A, as expected, in DPN on a year-on-year basis.

From our operations outside Norway, adjusted earnings were NOK 6.2 billion. This is more than 40% up from the same period last year. The cash flow per barrel from our international portfolio is at least as good as from our Norwegian production.

We increased our equity production by 13%, and the entitlement production by 23%. This is done by successfully ramping up US onshore production, production in Angola, and in Brazil. The increase was partly offset by natural decline at several fields, particularly in Angola, and decreased production at In Amenas, as you are aware of.

In all, now we produce 4 out of 10 barrels outside Norway this quarter.

The result from marketing, processing, and renewables were at NOK3.9 billion. This is a strong result, and is a significant improvement from last quarter.

As you know, results for MPR will be volatile. 2012 was a very strong year. The first half of 2013 was weak. Going forward, I expect to see results to be somewhere in between.

We see strong trading results within the natural gas business. Our overall realized gas price is down, but that is due to a higher share of US gas in the global mix.

Our European price realization is good, and is on par with last year; and last year was a year where we had record price realization in Europe.

And finally, the results are impacted by lower refining margins. So, let me spend some time on the refineries.

First of all, we have a low exposure to refining and midstream than our peers. That said, we book impairments on Mongstad and Kalundborg this quarter more than NOK4 billion in total. There are two clear drivers for this. First, we are realizing lower margins in the markets; and secondly, we also see a weak outlook going forward.

But let me be very clear, our ambition is to see profitability within our refining business. We are doing what we can to bring down the costs that we can control. Our improvement programs have brought down costs significantly; around NOK 1 billion on a yearly basis is the improvement done at Mongstad for instance.

We have no plans to close the refineries, but we will work very hard on further improvements. And we must ensure that we have the right structure in place for this business to develop successfully.

Our cash flow from underlying operations is NOK156 billion year to date. The change from last year is mainly due to lower prices, and a lower production.

We continue to generate a strong cash flow. We have invested NOK 84 billion so far this year, and this is in line with our guiding on investments.

Since the financial crisis, we have reduced our net debt from 27% in 2009 to 12% last year. At the end of this quarter, we have reduced net debt from 21% in the second quarter to 17% by end of this quarter. And, I expect, net debt to come further down during the fourth quarter; and this is despite two tax payments, two installments in Norway in the fourth quarter.

And then, we currently hold around NOK 100 billion in cash and cash equivalent. So, we continue with a firm financial framework, and with a solid balance sheet.

We are working constantly to improve our cost position further. In DPN, we have maintained a stable underlying total cost for seven quarters in a row. This is despite having more fields in production, and despite industry cost inflation. I'm very glad to see that all the efforts are really showing up in the bottom line.

In MPR, the improvement program we have put in place is really paying off, with concrete improvements and clear impacts.

In the international segment, we continue to deliver profitable growth. The increase in costs comes from royalty payments, and the transportation costs. These are a function of increased production, and prices. And then, compared to last year, diluent cost in Canada is now being included in the operating costs. So, the underlying operating cost is stable.



Then, let's move to depreciations. Compared to the same period last year, we see an increase as new fields are put onstream with higher depreciation at the start of the lifecycle, as we have discussed earlier.

We do expect to see an increase for DD&A on the NCS also for the next year as we continue to add on new fields and they come onstream, but increase will not be as large as the increase seen this year.

Outside Norway, I expect the DD&A to be relatively stable.

In general, DD&A will vary between quarters also in the future, but you should expect this to be impacted by new fields being phased in.

As we move forward, we will continue to improve our cost base and further strengthen our competitiveness.

Then let me touch upon the strategic progress we have seen in the quarter. First, the high impact oil discovery called Bay du Nord, offshore Canada, is between 300 million and 600 million barrels of oil recoverable. This is light crude and a high quality reservoir. This adds further resources to the Flemish Pass, in addition to the 100 million to 200 million from Mizzen, and also Harpoon, which is under evaluation.

So, we are operator. We have a 65% ownership share. Needless to say, this field will be highly profitable; a large potential oil development at the core of what Statoil does best, giving us a potential for a new offshore cluster.

It also takes Statoil to the top of the list of oil and gas companies in terms of conventional discovered volumes so far in 2013. Actually, we now have 4 out of the 12 largest conventional oil discoveries over the past three years in the world.

We have, as discussed earlier, a large inventory of prospects, therefore, we have decided to drill some more wells this year than earlier planned for. This will slightly increase our exploration spending in 2013.

Then, we continue to actively manage our portfolio. In July, we closed the \$1.45 billion transaction with Wintershall; and in August, we announced the \$2.65 billion transaction with OMV.

Over the past few years, we have realized some \$17 billion in proceeds, and more than \$8 billion in gains from strategic divestments, so that means around \$4 billion on average per year in proceeds; making the net investments significantly lower than the gross investments, which is what we guide on.

These transactions have shaped the portfolio further to fit our strategy; reallocating capital, and realizing significant value.

Let's talk about the outlook. As we have discussed earlier, our growth will not be linear. 2013 production will be lower than 2012. The Ormen Lange redetermination will reduce production by 20,000 barrels per day on an annual basis this year, and this means around 40,000 in the second half of the year.

The divestment to Wintershall will also impact our production; 40,000 barrels per day from the closing, which was July 31.

And then, the OMV transaction will impact production by some 30,000 barrels per day from closing.

We will invest \$19 billion in 2013; this is as expected.

Projects, they are on schedule, and they are at cost.

And we will continue to mature our large portfolio of exploration assets. We now expect to complete around 60 wells this year. Total exploration activity level will be around \$3.75 billion, excluding signature bonuses, and we will drill around 20 high impact wells from 2013 to 2015.

So, turning to next year, for 2014 production, there are effects that you need to be aware of. We have divested producing assets to OMV. We will also see full-year production impact from the Wintershall transaction. At Ormen Lange, we will also have full-year impact of the redetermination. These three elements will impact production by around 110,000 to 120,000 barrels per day in 2014, and this is around 80,000 barrels per day more than the impact in 2013.

2014 will be a year where a number of new fields come onstream. The Statoil operated fields are progressing as planned, but remember that the majority of these will come onstream, and they will start to ramp up, during the second half of the year. And despite the underlying growth, it is, of course, difficult to compensate for the impact from the divestment and redetermination.



We are also using the flexibility in our onshore US assets. We have reduced the activity to optimize for the market condition, and this implies limited growth in 2014 from all our US onshore assets compared to their current level.

As you will remember, we increased our production by 8% from 2011 to 2012 by ramping up new fields. Going forward, we have the capacity to deliver beyond 2.5 million barrels per day. However, we have been clear that we are not driven by volume ambitions, but by value creation.

We are in a privileged situation, with a lot of great investment opportunities; this enables us to prioritize our investments. We will come to more details on our long-term outlook at our Capital Markets update in February.

And finally, I know you like to watch our wells, so let me give you some wells to watch. This time, I will talk about some key regions to look out for.

The Barents Sea campaign in the Johan Castberg area continues. We believe in further oil potential in this area. Skavl is the next out, and we expect that to be completed during the fourth quarter.

We also continue drilling in Tanzania where Mronge is in progress, and we will come -- and that will be finalized in the quarter.

Also, in 2014 we have drilling campaigns coming up in the Hoop area in the Norwegian Barents Sea; the Kwanza basin in Angola; and in the Gulf of Mexico.

So, to round off, strong underlying earnings in the quarter, somewhat impacted by impairments. Our operational performance was good, with production as expected; a 6% underlying growth, and record international production; a high project activity level, progressing according to plan; a great new high impact discovery; and then, we realize significant gains through continued portfolio optimization. We are on track, and maintain our guiding for 2013.

So, looking ahead, Statoil is well positioned. We continued to efficiently develop our projects. We have a strong resource base, and we are prioritizing hard. We will maintain a firm financial framework, and we will continue to pay a predictable, and growing, dividend to our shareholders. And we will do all of this while we are keeping our balance sheet solid.

So, thank you very much for your attention. Then, I will leave the word to you, Hilde, to lead us through the Q&A session. So, thank you.

QUESTION AND ANSWER

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, Torgrim. For the Q&A session, Torgrim will be joined by our Senior Vice President for Performance Management and Risk, Svein Skeie; and our Senior Vice President for Accounting and Financial Compliance, Orjan Kvelvane.

We'll start out by taking questions from the audience here in Oslo, and then we'll turn to the audio audience. So, I first ask the operator to explain the procedure for posing questions over the telephone. Please, operator.

Operator

(Operator Instructions).

Hilde Nafstad - Statoil ASA - Head of IR

Okay, we'll start out here in Oslo, then. Please remember to push the button, and hold it, on your microphone as you speak in order to broadcast your question. Trond?

Trond Omdal - Arctic Securities - Analyst



Trond Omdal, Arctic Securities. On the Troll field, you are going to install a new compressor, and I think your guiding was second half of 2014. Is that still the case? And how will that impact your plateau, or peak production in Q4 and Q1?

And the second question, you've now taken over ownership on Eagle Ford, and you've been drilling for three years. Has the Company's view of the liquids component versus the dry gas component changed since you did the acquisition?

Torgrim Reitan - Statoil ASA - CFO

Okay, thank you, Trond. First, on the Troll field, you are right; one compressor is for repair, or a new compressor will be installed. The plans are as they have been. While we are -- while we have reduced capacity at Troll, the maximum capacity is typically 95 million standard cubic meters per day, while the full capacity is 120 million standard cubic meters per day. This means, first of all, a reduced flexibility around Troll production.

On Eagle Ford, drilling is progressing well. Since we have taken over the operatorship, we see that there is a significant potential to improve efficiency, and reduce costs. And, so far, that asset delivers pretty well; and in accordance with our expectations.

Morten Lindbæk - Fondsinans ASA - Analyst

Morten Lindbæk, Fondsinans. Could you please elaborate on Snorre, and on the processes that you have been through; and also, on how the last tax changes has affected the economics on the project?

Torgrim Reitan - Statoil ASA - CFO

Thank you, Morten. So, Snorre 2040 is an IOR, potential IOR investment. We have not made any decisions. What we have agreed is to work on a concept and plan for an investment decision in 2016, which is actually later than was planned for earlier.

We will work very hard to improve that project as much as possible, but no decisions have been made. In 2016, this project has to compete with other investment opportunities, as such.

When it comes to specifically on the tax changes made in the spring that deteriorated, the profitability of that asset, and adjustments to that will improve the economics and make it easier to make a positive investment decision when that is relevant.

Hilde Nafstad - Statoil ASA - Head of IR

Do we have any further questions here in Oslo? I can't see any, so then we will turn to the audio audience. Our first question comes from Alejandro Demichelis from Exane.

Alejandro Demichelis - Exane BNP Paribas - Analyst

Just one question here. You have been talking about your costs being under control here. Maybe you can give us some kind of indication, at least directionally, in terms of how we should be thinking about Capex going into next year.

Torgrim Reitan - Statoil ASA - CFO

Thank you, Alejandro. The guiding that we give is \$21 billion in average in investments 2013 to 2016. This is consistent with a production in 2020 of 2.5 million barrels per day, so that is still valid. But we also are saying that this production ambition in 2020 is what it is. And we -- our target is to create value, not necessarily steer on a one single number at one point in time.

We are doing portfolio adjustments, as you know. We will revert, at the Capital Markets Day, in February, with a fuller update on the totality.



Alejandro Demichelis - *Exane BNP Paribas - Analyst*

Okay. But just in terms of you're doing the divestment here, can we see some kind of reduction in Capex because you have less assets to spend your money on?

Torgrim Reitan - *Statoil ASA - CFO*

I won't go into details; we will have to revert to that in February. But generally speaking, yes, these transactions reduce our investment, or free up investment capacity going forward.

Alejandro Demichelis - *Exane BNP Paribas - Analyst*

That's very clear. Thank you.

Hilde Nafstad - *Statoil ASA - Head of IR*

Theepan Jothilingam, Nomura.

Theepan Jothilingam - *Nomura - Analyst*

A couple of questions, actually. I was just coming back to the disposal strategy, particularly after the OMV transaction. Is management thinking that there could be a greater emphasis to sell some of the growth assets, particularly in Norway?

Then, in that context as well, I was wondering whether there had been any progress in terms of development plans on Johan Castberg. I think the energy minister made some comments recently there.

And just a follow up. I understand that you'd like to give more details on Capex for the longer term, and the 2020 target, but just, I think following up on the first question, directionally, do you see organic investment up year on year, or not, given that you've given us a production profile? Thank you.

Torgrim Reitan - *Statoil ASA - CFO*

Thank you, Theepan. When it comes to disposal strategy, portfolio management is a key part of our strategy, and I think that is very well demonstrated by the transactions over the last three years.

We will continue to high grade the portfolio, to sharpen our growth further, seeing to that we invest into the most profitable projects. Going forward, you should expect this to be a part of the strategy, and what you should expect to happen.

When it comes to Johan Castberg, we have a drilling campaign in that area. We will await that. And then, it has been said that the fiscal framework will be looked upon in this area, so we also await fiscal clarification for that asset.

When it comes to investments, I do -- can understand your question and your curiosity, but I must ask you to show up at the Capital Markets Day in February, instead.

Theepan Jothilingam - *Nomura - Analyst*

Okay. Can I just follow up? Back on disposals, just in terms of thinking though, is there more emphasis in terms of being more active on early cycle assets, trading some of the exploration success that you've clearly had over the last 18 months, two years? Is that now more in your thinking, or are you still thinking more around the mature-producing assets in the portfolio?

Torgrim Reitan - *Statoil ASA - CFO*



If you look back on the transactions that has been done over the last year, you'll see actually quite a broad specter of assets, from mature assets to more exploration and early phased assets.

We take a rather broad perspective on this, and I think that must be part of forming your expectation. I will not give no clear guidance on specific types of assets, but we have regularly a review of the portfolio to decide on what do we want to continue with and what do we want to do something else with.

Theepan Jothilingam - Nomura - Analyst

Okay, thanks very much.

Hilde Nafstad - Statoil ASA - Head of IR

Haythem Rashed, Morgan Stanley.

Haythem Rashed - Morgan Stanley - Analyst

I may be repeating earlier questions; perhaps, if I could ask it a slightly different way, I'd like to come back to portfolio management again. I just wanted to understand, because I know in the past you've chosen not to give any explicit guidance on disposals, and you clearly have a very strong track record in actively managing your portfolio, but is there any scope to provide any guidance, or color, on the amounts of, shall we say, spending saved through an active portfolio strategy?

And putting that a slightly different way, would you say -- would it be fair to say that your focus, or your priority, when you're looking at assets in the disposal phase you would be looking at those with perhaps disproportionately high levels of spend associated with them? Is that something that is an increasing focus for management?

Second question is on US onshore gas production. It was quite a bit stronger QonQ. I know you made some comments about 2014 activity levels in the US continuing to remain relatively subdued, I just wanted to -- if you could give a bit of color as to how we should think about the trajectory for that going forward over the next 12 months. Is 3Q more of an anomaly? Should we be seeing those productions normalizing back down again? Thank you.

Torgim Reitan - Statoil ASA - CFO

Thank you, Haythem. It was a bit on and off with the sound, so the first question I think I got it. Looking at further portfolio adjustments, I think I just have to repeat my answer. It's a pretty broad approach to how we look at our portfolio.

We keep on making big discoveries that are very profitable, and that will be prioritized. We currently run a very hard prioritization, what to invest in and what not to invest in, so certainly there will be assets that are in the investment phase that are part of that discussion. And then, there are other assets that are less strategic than others that we want to capitalize on.

On US onshore production, to give some more color on that, currently, we run with 5 rigs in Bakken; we run with five rigs in Eagle Ford; and a total of 14 rigs in Marcellus. This is down since the start of the year, and significantly down from what it was before that.

When it comes to Marcellus, in the start of the year we had 400 wells drilled, waiting for completion and hook up to gathering systems. A lot of them have now been hooked up and are in production. The current inventory is down to 100. 100 wells is a normal inventory when you are in a steady state. There has been a, what should be call it, backlog of wells waiting for transportation. So that is a part of the explanation why the growth within this segment has been so high so far this year.

So, as you understand, a stable situation with few rigs means lighter growth from the Marcellus area.

When it comes to Bakken, at one point in time we had 16 rigs; we are currently at 5. To give some color on why that is, for us, it's very important to take a long-term perspective on that asset. What we do see is that when we run with such a number of rigs we are able to take learnings across the rig portfolio and apply it, and that is -- makes very much sense. So that is -- explains why this will be slower, ramp up, than it has been this year.

Hilde Nafstad - Statoil ASA - Head of IR



Thanks, Haythem. Jon Rigby, UBS.

Jon Rigby - UBS - Analyst

Two questions; the first just going back to your Bakken comment. You talked about value, not volume, but surely everybody is driven by value. If you look at your competition, which is mainly independents, they're clearly growing production significantly faster than you in the basin, so I just wondered what it is more specifically that you are concerned with about not growing production that they clearly are not, and maybe what it is we're missing in the comparison between the two.

Then, the second question is I'm fully behind your strategy of realizing value; I think it's a good one, and particularly with your exploration success it makes sense to continue to high grade. But has any thought been -- has there been any thought at Board level of allowing shareholders to participate in that, in that the final link between realizing capital value within the portfolio and delivering to shareholders could be something exceptional in terms of payback to shareholders? I'm thinking primarily of share buybacks. Thanks.

Torggrim Reitan - Statoil ASA - CFO

Thank you, Jon. It will be the easiest thing to boost short-term production in Bakken. It is just to frack very hard, and then you'll see the initial production go very, very high, and then decline very rapidly. The key here is to frack as subtle as you can, reduce the distances between the fracks, and get the maximum out of your reservoir; then you get a higher recovery rate, but a much flatter production profile, and much less initial production.

Without naming anyone, companies that want to dress up for being acquired really have the incentives to boost initial productions; we have not that driver. So, I think that is a short and brutal comment.

When it comes to your second question on share buybacks, yes, we have a mandate from the Annual General Meeting, like we have every year. It is part of the toolbox that we have, and if that is judged as being prudent we will use it.

Jon Rigby - UBS - Analyst

Okay, thank you.

Hilde Nafstad - Statoil ASA - Head of IR

John Olaisen, ABG.

John Olaisen - ABG Sundal Collier - Analyst

Two questions. First, you tend to give a lot of warnings about production for 2014. How strongly should we take these indications? Do you expect another year with production down year on year, or do you expect production growth in 2014?

Torggrim Reitan - Statoil ASA - CFO

Thank you, John. My main purpose is to get across very clearly the impact of the changes that has happened over the year, so you all have that with you when you make your forecast into the future.

I will not give any directions into it next year, but we have a guiding from 2% to 3% of growth towards 2016. That is still valid, but you should remember that impact from the OMV transaction is 60,000 barrels in 2016.

John Olaisen - ABG Sundal Collier - Analyst



Sorry, yes, but also organic investments have gone from \$16 billion to \$19 billion to \$21 billion. Should we really not expect any production growth from all this increased CapEx?

Torgrim Reitan - Statoil ASA - CFO

I think it is we are currently investing about \$19 billion, and, yes, it is investing into growth and there will be growth. But I think it's relevant to also take into account what is the net investments in this perspective, all the proceeds that has been brought in, and then, of course, reduces the production.

John Olaisen - ABG Sundal Collier - Analyst

Okay. My final question is regarding The NOK4.3 billion in provision for changing ownership interests in an international field. Could you specify which field that is? What's the dispute?

Torgrim Reitan - Statoil ASA - CFO

This is related to an offshore field internationally. Due to commercial reasons, unfortunately, I can't be more specific than that.

John Olaisen - ABG Sundal Collier - Analyst

Could you tell us a little bit how much it will impact your production if you lose on that dispute?

Torgrim Reitan - Statoil ASA - CFO

That is too early to say, but the expectation is that it is not too large impact on production.

John Olaisen - ABG Sundal Collier - Analyst

Okay, thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Peter Hutton, RBC.

Peter Hutton - RBC Capital Markets - Analyst

Just two questions. Again, coming back to the guidance, or marginal guidance, that we've got for 2014 production, you said that the impact of the Ormen Lange and disposals, etc., would be 110,000/120,000 in 2014.

Can I just check because, looking through the logic that you gave in getting to those numbers, that would imply that's 2014 compared to 2012. Is that correct? Because you also said that's bigger than the 80,000 barrels a day that we saw in -- sorry, that's 80 bigger than the impact we saw in 2013. So the base for that is 2012, can I confirm that one?

The second area is -- thank you for the update on Castberg. When do you think we might be able to get to a stage where there's more information on that one, given that you're awaiting the campaign, and also the fiscal framework.

And also, on dates, are we still on track to get an update on Sverdrup by the end of this year? Thank you.

Torgrim Reitan - Statoil ASA - CFO



Thank you, Peter. Svein, if you can give more granularity into the 110,000 to 120,000 that would be appreciated.

On Johan Castberg, Skavl is being drilled. When that is done, the next one is going to be drilled and, as far as I recall, it's called Kramsno. And then, we have done with the campaign around Johan Castberg. Then we know more, whether there is additional volumes.

When it comes to fiscal framework and clarification, we are awaiting that. That will, of course, be an important factor in deciding on the way forward. It is a great reservoir, it is large, and we'll see.

When it comes to Johan Sverdrup, the plan is to make a concept selection by end of this year, where the updated total resource estimate from us will be given. So that is the plan, and we will see to that, that information is presented in a prudent way.

Svein Skeie - Statoil ASA - SVP, Performance Management and Risk

Regarding the 110,000 to 120,000 barrels impact next year, that comes from the Ormen Lange, which is then estimated to be around 40,000 barrels per day at the full year; the OMV transaction, which is then also then estimated to be around 40,000; and, as we have said, also for the Wintershall transaction, that the impact then after closing is round 40,000. So those are the three elements adding up to the full impact of 110,000 to 140,000 -- 110,000 to 120,000.

Peter Hutton - RBC Capital Markets - Analyst

But that's not against full-year average 2013 because some of those elements have been included already? Wintershall from the end of July, Ormen Lange is 20,000 on an annual basis.

Svein Skeie - Statoil ASA - SVP, Performance Management and Risk

Yes, this is the impact in 2014. And also, as Torgrim mentioned in his speech, is that the increase will be around 80,000 from this year.

Torgrim Reitan - Statoil ASA - CFO

But, Peter, Ormen Lange, the annual effect is 20,000, but second half effect is 40,000.

Peter Hutton - RBC Capital Markets - Analyst

Right.

Hilde Nafstad - Statoil ASA - Head of IR

Michael Alsford, Citi.

Michael Alsford - Citi - Analyst

I've got two questions actually, please. Firstly, just on cash taxes, so despite obviously lower profitably in 2013 versus 2012 cash taxes are running higher year to date. Can you just tell us what's driving this? And does this, I guess, unwind in fourth quarter? And how should we think about, I guess, cash cashes relative to P&L taxes in 2014? That was my first question.

Then secondly, maybe one more go on Capex. You've obviously given us the guidance on production impact for the asset transactions that you've made. You mentioned, I think, when you did the OMV deal that you were freeing up around \$7 billion of CapEx, of which I think \$5.5 billion was before 2020. Could you maybe provide us with what the, I guess, saving is from that asset divestment for the period 2013 to 2016, so we can reconcile with your current Group guidance on CapEx please? Thank you.



Torgrim Reitan - Statoil ASA - CFO

The first question on cash taxes this year, and I'll make a comment to Norwegian taxes because that is paid with a six months' delay. So the first -- the Norwegian taxes paid in the first half of the year was based on the 2012 earnings, and they were high, so the tax payments in the second half of the year is lower than in the first half of the year.

When it comes to the OMV transaction, you are absolutely right, it takes down the investment levels from these assets from \$7 billion; \$5.5 billion within the period up to 2020. And if you look at the profiling, it is more in the early years than in the later years related to those.

Michael Alsford - Citi - Analyst

Okay, so just to confirm, that \$5.5 billion is going to be in the 2013 to 2016 period?

Torgrim Reitan - Statoil ASA - CFO

No, not all of it. \$5.5 billion will be in the period up to 2020. And if you profile it, it is more in the earlier years than in the later years of that period.

Michael Alsford - Citi - Analyst

Okay, that's great. Thank you very much.

Hilde Nafstad - Statoil ASA - Head of IR

Rahim Karim, Barclays.

Rahim Karim - Barclays - Analyst

I have two questions, if I may. The first was just around Tanzania. We've seen a few comments on the headlines in the last week, or so, around the fact that there is concerns about there not being enough resource to develop LNG facilities there. I was a bit surprised by those, and also by others, suggesting that Statoil and Exxon might be looking to sell down a stake there. I was wondering if you could, perhaps, provide an update, and your current thinking, around Tanzania.

Then the second question was just about the impairment seen in the upstream. You've talked a bit about the provision, but I was wondering if you could provide any color on the impairments, especially in the international business; what those relate to; whether any of it relates to the US onshore; and what -- whether there are any associated reserve impact. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay, thank you. All right, so, on impairments, Orjan, if you can take that afterwards. Thank you, Rahim.

On Tanzania, there is enough resources for a development, 15 to 17 tcf. We are working closely with BG in the neighboring block. As you know, we have one well being drilled currently, Mronge, which is the first in that campaign. So, of course, more volumes are better when you talk about LNG developments. To us, the priority is to do this right. This will be -- this will have no impact on 2020 production, so this is for the next decade.

On impairment, Orjan?

Orjan Kvelvane - Statoil ASA - SVP, Accounting and Financial Compliance



Yes, on impairment, we, of course, test the triggers every quarter, and this quarter it's mainly impacted by the refineries, over NOK4.3 billion. And then, in addition, we have parts in DPI, NOK0.9 billion; and also in DP Norway, NOK0.4 billion. But I don't think we should go into details further.

Torgrim Reitan - Statoil ASA - CFO

And the question you asked, will this have reserve impacts, these impairments, no. No, they will not.

Rahim Karim - Barclays - Analyst

But can you confirm that they're not associated with the US onshore activity?

Torgrim Reitan - Statoil ASA - CFO

No, they are not associated with the US onshore; you are right, they are not associated with that.

Rahim Karim - Barclays - Analyst

Okay, thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Oddvar Bjørgan – Sparebank1

Oddvar Bjørgan – Sparebank1- Analyst

I'm afraid it's the Capex question again. But, as you know, this is the main investor worry in the stock. But I just try to rephrase the question a bit. Your last CapEx guidance for 2014 to 2016 was given in February this year. Today, what has changed? Do you see more Capex, or do you see less Capex in that period now? Can you answer that?

Torgrim Reitan - Statoil ASA - CFO

Thank you, Oddvar. 2.5 million barrels per day is consistent with 21 billion in the period 2013 to 2016. If we elected to grow harder, which all the assets, and discoveries, and everything gives the potential to, then investments can be significantly higher than that.

On the other hand, if we decide to do something else than producing 2.5 million in 2020 lower than the investments will be lower. So it is a pretty consistent picture, and we see that still is the case.

What has changed since February? I think, first of all, it's a series of great discoveries and explorations results that is -- has brought into the prioritization work that we are currently doing.

Hilde Nafstad - Statoil ASA - Head of IR

Robert Kessler, Tudor Pickering & Holt.

Robert Kessler - Tudor Pickering & Holt - Analyst

I wanted to come back to refining, if I could. I recognize it's not the largest portion of your portfolio, but I wanted to see if I could get some color nonetheless. You said no plans to close the refineries, but any thoughts about temporary reduction in runs? And also, any possibility of divestment for those assets?



Torgrim Reitan - Statoil ASA - CFO

The production out of those assets are optimized, and the runs are reduced to optimize it. When it comes to any plans for divestments, I won't comment on that. But on general notice, that selling refineries in Europe is not an easy task these days.

Robert Kessler - Tudor Pickering & Holt - Analyst

Understood. Have you been below cash costs on the margin in recent history, say the last couple months, at those refineries?

Torgrim Reitan - Statoil ASA - CFO

On both refineries, so far this year is balancing, neutral; both in the quarter, and so far this year.

Robert Kessler - Tudor Pickering & Holt - Analyst

Okay, thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Iain Pyle, Bernstein.

Iain Pyle - Sanford C. Bernstein - Analyst

Perhaps just two questions on Flemish Pass. Firstly, when might you expect to have some more information on Harpoon?

Then secondly, given a fast-track development of what looks to be pretty attractive assets there, is there any potential for these to contribute to the 2020 production target? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you, Iain. The Harpoon, the finishing of that evaluation, that is ongoing. Not sure if you have the date, Svein.

Svein Skeie - Statoil ASA - SVP, Performance Management and Risk

Well, I think we are in the phase of then doing the final evaluations there, and then taking the totality. And then when we have the full overview, we need to come back to further plans.

Torgrim Reitan - Statoil ASA - CFO

Yes, exactly. There are -- there is such a huge acreage that we hold around this, and we do see other very interesting drilling targets in this area. We will work on bringing a rig back, and do more work. You should not expect this to be part of the production in 2020.

Iain Pyle - Sanford C. Bernstein - Analyst

Thank you.



Hilde Nafstad - Statoil ASA - Head of IR

Blake Fernandez, Howard Weil.

Blake Fernandez - Howard Weil - Analyst

Thanks for taking the question. I had a couple of questions on back to North America. I'm just curious, it sounds like your activity levels, as you say, will be modest as you kind of develop your drilling and completion techniques. Is it fair to say at this point you're really focused on optimizing cost, and not so focused on testing other formations and down spacing in some of the plays, like the Eagle Ford?

Torgrim Reitan - Statoil ASA - CFO

Blake, thank you. I think you are absolutely right, we see a big potential in improving the operations, and making it optimal. We are satisfied with acreage that we have, and the positions that we have. Optimizing around that is a natural part of running that business, of course, but I've said, quite comfortable with what we have.

Blake Fernandez - Howard Weil - Analyst

Okay. If I could just follow up, do you have a first right of refusal on your Eagle Ford acreage with Talisman?

Torgrim Reitan - Statoil ASA - CFO

I think those commercial consideration I'm not prepared to share.

Blake Fernandez - Howard Weil - Analyst

Got it. Thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you. And that will have to conclude our Q&A session for today. The presentation and Q&A session can be replayed from our website, as usual, in a few days, and there will also be transcripts available.

If you have any further questions, please don't hesitate to contact us with the investor relations department. Thank you, all, very much for participating today. Have a good day.

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