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EDITED TRANSCRIPT

STL.OL - Q2 2015 Statoil ASA Earnings Call

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OVERVIEW:

Co. reported that its 2Q15 reported net income was NOK10b.



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PRESENTATION

Peter Hutton - Statoil ASA - Head, IR

Hello and thank you for joining us today on the Statoil conference call for the second quarter of 2015 either by phone or following us on the web. My name is Peter Hutton, Head of Investor Relations at Statoil. And I'm joined today by Torgrim Reitan, CFO; Svein Skeie, Head of Performance and Risk; and Orjan Kvelvane, Head of Accounting.

I'm conscious that today is a very busy day for everyone on results, so we will keep this call tight on timing, and should be finished by 1.30 UK time. Torgrim will present the results and drivers for the quarter over 15 or 20 minutes, and then we'll open up for quick questions and answers for around 30 minutes.

With that, I'll pass the word through to Torgrim for his presentation.

Torgrim Reitan - Statoil ASA - CFO

Thank you very much, Peter. And good afternoon and welcome. We have three messages for you today. First, we deliver an encouraging set of adjusted numbers, solid operational performance, generating strong cash flow. And we reduce our net debt compared with the first quarter.

Second, cost improvements are coming through, giving visible impact on the bottom line.



And third, we also see good progress on capital efficiency. This enables us to lower our organic CapEx guidance. When also taking into account changes in the dollar/krone rate, we expect organic investments in 2015 of around \$17.5b.

In addition, we announced that we are converting to US dollar as our presentation currency from the first quarter 2016. This will better reflect the exposure to dollars in the underlying business, and also facilitate comparison with peers.

We will also declare our dividends in dollars. This starts now with a second quarter dividend of \$0.2201 per share, which is consistent with the previously guided level of NOK1.80 per share.

Our reported net income for the second quarter was NOK10b, positively impacted by the divestment of Shah Deniz. Adjusted earnings after tax were NOK7.2b, and NOK22b before tax. This is impacted by lower commodity prices compared to a year ago. However, cost improvements are coming through to the bottom line. And we delivered solid operational performance with good production growth and continued high regularity. We also saw another strong result from our downstream business.

Please note that a weakening of Norwegian krone to dollar continues to impact our financial results, as it is measured in Norwegian kroner. It increases revenues, operating expenses, particularly outside Norway, and capital employed.

Finally, our tax charge was NOK15b. Tax on adjusted earnings was 68%. Strong results from the mid and downstream business with lower tax rates contributed well to the after-tax earnings on the corporate level. In a low price environment our tax rate in the upstream is expected to be higher than normal. So please be aware of this in the coming quarters.

Our upstream operations in Norway are performing well. The lower earnings compared with the same period last year are due to lower prices. But this is offset by reduced operating expenses. So far, we have taken down operating expenses by 11% year on year and an even higher percentage reduction on a per barrel basis. We see lower field cost driven by improvements, reduced activity level and lower turnarounds.

Production on NCS was up 7%, and around 9% adjusted for divestments, good production efficiency. We are ramping up new fields like Gudrun, Svalin and Valemon. We have produced flexible gas from Troll and Oseberg in accordance with our value over volume strategy. And we had lower maintenance than the same period last year.

At the same time we continue to invest for the future. In June we submitted the plan for phase one of the Shetland Lista development at Gullfaks to the Ministry. We also installed the world's first subsea wet gas compressor at Gullfaks South.

Also in June the plan for development and operation for the Johan Sverdrup project was approved by the Norwegian Parliament. Over the past weeks we are awarded important contracts on Johan Sverdrup, and recently started construction at Verdal. This is one of the largest industrial projects ongoing in Europe.

The results from our upstream business outside Norway are also impacted by lower prices. We continue to deliver high production. Adjusted for divestments, close to 4% growth despite higher impact from planned turnarounds. Our entitlement production is up 9% due to lower PSA effects.

We report an increased depreciation charge in Norwegian krone. This is due to currency effects and ramp-ups on new fields. Measured in dollars, DD&A is down 16%. Operating momentum is good and production cost in dollars is down 10%.

Finally, MPR again delivered a strong result across the board, more than double earnings compared to the same quarter last year. We are realizing high margins at our refineries, delivering solid trading results across all commodities and solid performance in European pipeline gas and in LNG.

As you know, the results from MPR will fluctuate. I have earlier said that around NOK3b is a normal quarter. This is still valid. However, if the business environment remains supportive with contango in the energy markets and strong refinery margins you should expect results above this level.

I'm pleased to report another quarter with strong operational performance. We produced 1,873m barrels per day, up 4% compared with the same period in 2014. Adjusted for divestments, growth is at 7% with a solid 9% on NCS.

Stable operations and high production efficiency regularity improvements continues. And decline remains stable at around 5%. Then we continued to ramp up production at Gudrun, Svalin and Valemon in Norway, CLOV in Angola and Jack/St. Malo in the US. This gave an improved production mix with liquids up 8% and gas flat.



We have maintained strong cash flow from operations during the first half of the year at NOK88b. We have realized NOK24b in proceeds from divestments. We have paid three tax installments on the NCS. And please note that these are based on 2014 earnings. In the second half of this year, tax payments will be based on 2015 earnings and thus be lower than in the first half of the year.

We saw higher after-tax earnings from the MPR segment. Year to date we have paid NOK11b in quarterly dividends. And then we have invested for NOK64b.

We have a strong financial position. As you have seen we have maintained a strong credit rating with stable outlook.

Our net debt ratio is now 22.4% which is down from 24% in the previous quarter. As we guided in February, we expect to see increasing gearing at current prices. But we are prepared to use the flexibility in our investments to safeguard our solid financial position. And we are currently running with more than \$20b in cash.

Our efficiency programs are progressing well. We outlined the key initiatives at our capital markets update. These are now coming through to the bottom line and we remain on track for the 2016 target. I want to highlight some of the deliveries in the first half of this year.

We continue to improve the offshore drilling and well performance. The target is 25% time savings and we are on track. In the US onshore we also see strong performance at almost 30% cost reduction. I will, of course, follow this very closely from Houston.

Then we are making good progress on facility CapEx. This is CapEx that will come in in the future. And I am particularly pleased with our efforts to increase robustness and further optimize these projects, reducing the breakeven prices. We will come back with more on this at our next capital markets update.

In February, we increased our ambition on modification CapEx savings. Strict prioritization and good planning has been key for this progress. Then on the cost side we continue to see field costs on the NCS moving down. And we continue to see high production efficiency.

So as you can see from the chart on the right-hand side, our adjusted operating expenses and SG&A are coming down. Upstream operating expenses and SG&A are down by around 15% quarter on quarter. We are improving both in our international business and in Norway. The numbers confirm that we are working smarter and delivering. I am particularly proud of the strong engagement I see from our teams across the Company. But we also know that this is just the start. Major efforts lie ahead of us.

Let me close by turning to the outlook. We reduce our CapEx guidance for 2015 from around \$18b to around \$17.5b. This is based on gains from our efficiency programs coming in even stronger and faster than expected, and also from gains from currency. If the current krone to dollar rate is maintained through the year there is an additional potential to reduce the investment level.

As we said at our Capital Markets Day, we will continue to prioritize high value growth and use our flexibility to increase returns and to balance cash in and cash out. We maintain significant CapEx flexibility in 2017 and 2018 and we have financial robustness to continue to invest in the best projects.

Ongoing developments, we'll grow organic production by around 2 percentage points per year towards 2016. And we have many start-ups this year. Valemon as you have seen, Edvard Grief, Goliat as well as fast track number 11 in Norway.

But we have also experienced delays on some development projects such as in the Gulf of Mexico. So we are following those projects closely to ensure that deliveries remain according to cost and plan. We will continue to ramp up Gudrun, CLOV in Angola and Jack/St. Malo.

Then production growth is expected to be around 3 percentage points per year from 2016 to 2018, and Johan Sverdrup will come in late 2019. For 2015 we have a somewhat lower turnaround activity than previously. Full-year maintenance is expected at 45,000 barrels per day. 45,000 barrels per day should be expected as the impact in the third quarter as well.

And finally on the exploration side, we have shared with you some more detail on a program at our last presentation. In the second quarter, we made two discoveries on the NCS and we announced the Julius discovery earlier this month.

Internationally, Thorvald in Gulf of Mexico was a technical discovery, and Wall in the UK was dry. We still expect to spend around \$3.2b in exploration this year, and this is positioning for the long term.

So let me round off. An encouraging set of numbers, solid operational performance and efficiency improvements coming through. We delivered a strong cash flow and lowered our gearing. We reduced our CapEx guidance for the year and our financial position remains robust. So we are dealing forcefully with the current market environment and at the same time continue to position for the long term.



Our next results presentation will be held by the incoming CFO, Hans Jakob Hegge. He is a very experienced leader. And the CFO area will be in a safe pair of hands. As you know, I am taking over as Head of our US business starting in August. And it has been a real privilege to work with you all over the past five years, and I look very much forward to continue our discussions in my new role.

So thank you very much for your attention. And then I will leave the word to Peter to guide us through the Q&A.

Peter Hutton - Statoil ASA - Head, IR

Thank you, Torgrim. We are now ready to move to Q&A. And in the interests of time and efficiency can I please ask you to keep yourself to one question. There may be time for a follow-up question during the course of this call before it finishes after around 30 minutes of this Q&A. So with that, Anne, could I please ask you to open the lines to poll for questions?

QUESTION AND ANSWER

Operator

(Operator Instructions). Haythem Rashed, Morgan Stanley.

Haythem Rashed - Morgan Stanley - Analyst

Thank you. Good afternoon, gentlemen. I wanted to ask one question particularly around the operational efficiency improvements, the chart that you show in the presentation. It looks in particular like the field costs on the NCS have seen a big improvement in this year in particular. Just wanted to get your thoughts on how that sits versus your expectations. Was this something that you have been pleasantly surprised with? Do you think that there is potentially scope for more to be done there? It looks like your well into delivering on your target for 2016. If you could provide a few thoughts around that.

And apologies I know I'm going to break the rule here, but just one very quick follow-up question. Your Marcellus production gas on the gas side was particularly strong this quarter relative to previous quarter. If you could just give us a bit of color on what's driving that that would be very helpful. Thank you.

Torgrim Reitan - Statoil ASA - CFO

All right, thank you very much. On the field costs on the NCS I am particularly impressed by the momentum in the operating organizations and their ability to take out cost quickly from the field costs. So this is part of the targets. But I think I will say it is -- it has come with a higher momentum and quicker than we had put into the plans. And I think this comes from a very engaged organization that really sees opportunities to improve their business currently.

On the Marcellus production, so we are now running six rigs in Marcellus. One is operated by us the others are operated by Chesapeake and Anadarko. The growth in Marcellus production is mainly coming from wells that are hooked up through the gathering systems and coming into production as such. So that's -- so we are able to evacuate all our gas into the Toronto markets and the New York markets. And in the second quarter we have quite a nice uplift on the value for Marcellus gas.

Haythem Rashed - Morgan Stanley - Analyst

Thank you very much, very helpful.

Operator

Oswald Clint, Sanford Bernstein.

Oswald Clint - Sanford Bernstein - Analyst



Yes, thank you very much. Maybe could I ask a question on divestments please? Obviously this year they look a little bit over double what you'd done this time last year. And obviously that's helping to balance the cash out of things. Could you tell us, Torgrim, what we should expect? I know you don't have divestment targets but do you have a list of identified or credible assets that could be sold through the rest of the year and even into 2016. That's the question.

And if I could break Peter's rule as well please just to ask a question again on the US but on the liquids shale side. I think I saw a sequential decline in terms of your oil volumes. Could you just talk about what you might expect for 3Q and 4Q? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you, Oswald. On divestment you said it yourself we are not having specific targets on this. The reason for that is that we don't consider ourselves to be in a position where we have to sell and we do not want to be a forced seller.

Second point, very glad that we have been able to do some very good transactions in a high price environment, and we benefit from that in the current environment.

And on the third point your question whether there is more to come, well there are still assets in the -- there are still work to be done to high-grade our portfolio even further both on assets that we have and on also potential add-ons to the portfolio. But all of that is purely driven by opportunity and timing. And this is an integral part of the strategy that we drive. So I think I'll have to leave the comments to that general level, Oswald.

On liquids production onshore, we have production growth in Bakken compared to the same quarter last year of 17%. We are currently running with five rigs there. So there has been growth since last year. Svein?

Svein Skeie - Statoil ASA - Head, Performance and Risk

Just a comment, if the comment was then also related then from first quarter to second quarter, we had some downtime in April which we now have fixed and for this quarter. So it's a turnaround and the downtime in April that affected the liquid rate in Bakken in the second quarter.

Oswald Clint - Sanford Bernstein - Analyst

Okay, thank you very much.

Operator

Biraj Borkhataria, RBC.

Biraj Borkhataria - RBC - Analyst

Hi, thanks for taking my question. And best of luck in the new role, Torgrim. It was on CapEx. I know you lowered your guidance for the full year but your H1 CapEx if you annualize it is running well below that. Do you see further downside beyond the \$17.5b for 2015?

And then secondly, just very quickly, could you comment on the level of committed CapEx for 2016? Thanks.

Torgrim Reitan - Statoil ASA - CFO

Thank you very much. So extrapolating the current spending for the full year of course gives a lower number than \$17.5b. If we assume the same dollar/krone rate as is in the market currently you should expect a somewhat lower than \$17.5b I think that's fair to say.

On committed CapEx next year we haven't given any explicit number on that but it is a lower number than the current spending.

Biraj Borkhataria - RBC - Analyst



Thanks.

Operator

Teodor Nilsen, Swedbank.

Teodor Nilsen - Swedbank Markets - Analyst

Good afternoon and thanks for taking my question. One question on dividend. Based on consensus expectations it looks like you will pay out 80% to 100% of your 2015 earnings. What should we expect for the future in terms of dividend payout ratio?

Torgrim Reitan - Statoil ASA - CFO

Well, thank you, Teodor. So dividend policy is meant to work through cycles. And our intention is to grow our dividend in line with long-term growth in underlying earnings. So that policy remains firm. We have today changed to declare our dividends into dollar and you should expect that to be the level going forward.

So whilst oil prices are now down compared to earlier we also see that costs are coming down, the capital intensity is coming down and equal to equal we will also see over time that returns will improve even in the current price environment.

Teodor Nilsen - Swedbank Markets - Analyst

So just one follow up, so what you're saying is that on the current oil price you expect to be able to keep the current dividend while payout ratio will decline?

Torgrim Reitan - Statoil ASA - CFO

I know you will listen very carefully to the -- to what I'll answer this question. And I'll refer to the dividend policy which is what we have and also to what we said on the Capital Markets Day in February where we demonstrated that we will be able to navigate in a \$60, \$80 and \$100 environment within -- with a very solid balance sheet and also honoring the dividend policy. So since January, things have developed, we have seen significant progress on our programs and promises in general.

Teodor Nilsen - Swedbank Markets - Analyst

Thank you.

Operator

Jon Rigby, UBS.

Jon Rigby - UBS - Analyst

Yes, thank you. Just looking back at your presentation from February and you kind of highlighted some very considerable flexibility that you did have in CapEx, \$5b to \$7b I think you talked about. And that was largely dependent upon whether you sanction or not a number of currently non-sanctioned projects.

So what I'm wondering is with us now six months later where would you characterize yourselves in terms of maturing those sanction projects or non-sanction projects? Do you think those are now further away as you start to think about when the right time is to FID them? Or do you think right now that the shape of the project sanction list is broadly the same as you would have thought about it six months ago?

And then just on that is can you just confirm or not whether that \$5b to \$7b was based upon the cost that you saw in the market as of February this year and whether you're starting to see some downside to those costs in the projects that you are planning to sanction. Thanks.



Torgrim Reitan - Statoil ASA - CFO

Thank you, Jon. So what has happened since the February presentation is the following. We have not made sanctions. We have not sanctioned investments that are jeopardizing the various portfolios. So we have kept the flexibility which is very important in these times.

The second observation is that the projects that we have decided to delay are becoming significantly better and significantly more profitable. So we see breakeven prices for those projects really moving quickly downwards and it is very, very encouraging. And then -- so actually from my seat I would say that there has been significant value created from delaying projects and giving them the opportunity to make slimmer concepts, streamline the developments and capitalize on lower supplier costs.

When that is said, there are still more work to be done on these projects. So we will keep the flexibility and we will have the opportunity to sanction them when the timing is right.

Jon Rigby - UBS - Analyst

So just to confirm would you agree that versus what you saw six months ago you see downside both in terms of timing and also in terms of the actual physical costs of those projects that you were looking at six months ago? Is that fair to conclude?

Torgrim Reitan - Statoil ASA - CFO

I would not call it downside I would call it improvements so we see a stronger set of projects and we have maintained the flexibility in the investment program.

Jon Rigby - UBS - Analyst

Right, thank you.

Torgrim Reitan - Statoil ASA - CFO

Thanks.

Operator

Lydia Rainforth, Barclays.

Lydia Rainforth - Barclays - Analyst

Thanks. Good afternoon. Just one question, on the, if I go back to the efficiency program, you did announce in June further sense -- or [times of further] guidance (inaudible) the business in response to the lower oil price environment. And particularly the amount of simplification of work processes and changes to the organizational setup. Are those incremental to what you saw back in February or is that part of the existing program?

Torgrim Reitan - Statoil ASA - CFO

Thank you, Lydia. So all the simplification efforts and standardization of that is an integral part of the program that we communicated. So it is very much in line. And I think that is -- when we really crack that code I think that is an area that has a significant upside over the years to come.

Lydia Rainforth - Barclays - Analyst

Okay, thank you.



Operator

Michael Alsford, Citi.

Michael Alsford - Citigroup - Analyst

Thanks for taking my question. So one question from me too. Just probably looking at the current portfolio, do you see it having, I guess, sufficient optionality at the lower oil price environment to sustain and arguably grow production over the medium term? Or perhaps do you see the need to use the downturn and your balance sheet to add new assets to the portfolio. I guess what I'm trying to understand is whether you feel comfortable that you've got the portfolio depth today to carry on and sustain the business, or do you feel that there is holes to fill. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you, Michael. We have some -- more than 100 projects in the portfolio that we can invest in. It is fair to say that, that project portfolio has been -- the breakeven prices in that portfolio has been impacted by the environment we have seen over the last three to four years, so these projects need to be improved significantly to be -- to justify to be invested into in the current price environment.

We see that many of these are now coming into profitability levels that make sense. Those projects make sense absolutely in the current price environment, and there are probably more to come. So I see a portfolio with optionality also in the current price environment, but there are more work to be done on these projects, before we are ready to move forward with them.

When that is said, and the second part of your question, we are of course looking also on everything else that's moving in the world. There's a lot of sales processes going on globally, and we are monitoring that closely. I think it's fair to say that -- I think it is fair to say that it is not necessarily the high-quality assets that hits the markets in these days.

Michael Alsford - Citigroup - Analyst

Understood. Thanks, Torgrim, and just to follow up, when you mentioned the point around the existing backlog and how things are looking to be more able to be sanctioned in this lower operating environment, are you simply looking at the spot price, or are you really thinking about where the forward curve is? So it worked for the forward curve prices but not necessarily just at the spot price?

Torgrim Reitan - Statoil ASA - CFO

So there is in these days, a positive net present value is not enough to be allocated investments into. So there is good business in delaying projects and making them even better and improve the projects. So even if projects have positive net present value, it is not sufficient to be invested in in these times.

We have taken a more cautious view, as we discussed last quarter, and reduced our long-term outlook for oil and gas prices.

Michael Alsford - Citigroup - Analyst

Okay, thank you very much.

Operator

John Olaisen, ABG.

John Olaisen - ABG - Analyst



Thank you for taking my question. At the capital markets update in February, you said that you will have free cash flow to cover dividends in 2016 with an oil price of \$100. Given all that you're saying now with profit coming down, capital intensity coming down and breakeven levels coming down, etc., will you be willing to give us some indication how much the \$100 free cash flow needed to cover dividends 2016 has come down? What is that number now?

Torgrim Reitan - Statoil ASA - CFO

Thank you, John. I cannot give any specific details on that. The guiding we gave in January still remains firm. If anything, things have progressed quicker than what we assumed in February. So the guiding still remains firm.

John Olaisen - ABG - Analyst

And on the CapEx guidance for 2016, at that same market update, you simply indicated flat CapEx in 2016 compared to 2015, and now you said, if I got it correctly on one of the previous questions, you said that so far, you have committed less in CapEx for 2016 than what you're guiding on for 2015. Should that be an indication that CapEx for 2016 is likely to be lower than in 2015? Is that correctly understood?

Torgrim Reitan - Statoil ASA - CFO

We have not issued any specific guiding for 2016 and the dividend, but we have a growing flexibility in the spending.

John Olaisen - ABG - Analyst

In the CapEx, sorry.

Torgrim Reitan - Statoil ASA - CFO

Yes, I understood, in the CapEx. So we have a growing flexibility in the CapEx. So the good thing with our investment portfolio is that we have the flexibility, and in these times, flexibility is gold. So an updated guidance on CapEx 2016 is likely to come at a Capital Markets Day next year.

John Olaisen - ABG - Analyst

Okay, thank you.

Operator

Thomas Adolff, Credit Suisse.

Thomas Adolff - Credit Suisse - Analyst

Hi. Just one question, please. I wanted to dig into the details of your production targets, the moving parts and contingency you have, you might have eaten into. If we look at 2015, you say 2% growth, unchanged from your prior guidance. If I go into the detail, Goliat is a bit delayed again. Big Foot won't contribute, possibly not even next year. So I wondered, you might see [...] here and there in other projects, Corrib or Heidelberg or whatever. I just wanted to get a sense for whether some of these delays are being offset by an improvement in platform uptime in the NCS or whether you're using your contingency or just some details please, thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay, thank you, Thomas. So production growth so far this year is good, and the guiding for the year remains firm. When we put forward production guidance, we also always have some sort of contingency in there. What has happened is that we have continued to deliver high regularity from our operated business, which contributes

positively, and we have also decided to produce from Troll and Oseberg in this quarter, also adding production, and that is value over volume strategy. So the guiding remains firm.

Thomas Adolff - Credit Suisse - Analyst

Can I just follow up and just get a sense for whether you can quantify in KBD terms the improvement in platform uptime, year on year,?

Torgrim Reitan - Statoil ASA - CFO

So in general, I would say that 1 percentage point in improved uptime is around 10,000 barrels per day on the Norwegian continental shelf. And this year, we have -- both last year and so far this year, we have seen an improvement of several percentage points compared to earlier years, so it's absolutely a meaningful contribution.

Thomas Adolff - Credit Suisse - Analyst

Perfect. Thank you very much.

Operator

Anish Kapadia, Tudor, Pickering, Holt & Co.

Anish Kapadia - Tudor, Pickering, Holt & Co. - Analyst

Hi. I had a question on exploration. It sounds like you've significantly lowered drilling time. We're seeing drilling rig rates coming down, and you also seem to be getting through your prospects quicker, so bringing some forward from last year. And then in I suppose the most high-cost area, Angola, doesn't seem like there's a lot of follow-on potential over there. Just wondering if that means that the \$3.2b of exploration CapEx is sharply lower than last year, not just down 10%, 20% or so.

And just also just wanted to get a bit of an update in terms of your progress so far in your Gulf of Mexico and your Canada drilling campaigns this year. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Thank you. So we think and we are of the strong opinion that it's possible to create value through exploration through the cycle, both in high-price and low-price environment, and we think it is important to be consistent on the exploration strategy, also in the low-price environment.

We work consistently with building and inventory of high-impact opportunities that we can maintain an attractive drilling program, and that's the case for 2015. And we are well underway on building the portfolio for the future, as well. So when it comes to the actual spending level for next year, we have to revert to that later, but the general tone is that we intend to continue to explore through the cycle.

In the Gulf of Mexico, we had Thorvald as a technical discovery this quarter. We have an interesting prospect, called Powernap, that is spudded actually in the third quarter actually in July, from Maersk Developer, and that is to test the potential extension from the Shell block. So we're probably looking at a November date for completion of that.

On the Canadian business, Bay du Nord, as you know, we are running a big program up there, so now we are doing follow-up drilling, but we have no plans for announcement of this in this year. That's a short update on the US drilling program.

Anish Kapadia - Tudor, Pickering, Holt & Co. - Analyst

Okay, so just to clarify, so by technical discovery on Thorvald, you made a nice discovery, but not commercial.

Torgrim Reitan - Statoil ASA - CFO

Yes, that's what we call it when it's not commercial. We call it technical.

Operator

Hamish Clegg, Bank of America Merrill Lynch.

Hamish Clegg - BofA-Merrill Lynch - Analyst

Hi. Thanks for taking my questions. Just a few little things to clear up. First of all, why did you decide to convert into dollars right now? You mentioned the easier comps. Should this mean that it makes life easier looking for potential acquisitions in the market?

And on that point, with your dividend, which is now rebased in dollars, perhaps you could just confirm that the \$0.22 per quarter base that you're going to stick with, so effectively 30% down year on year, so you've managed to work in a 30% dividend cut. Am I right in understanding that your Norwegian shareholder base will effectively be vulnerable to the krone/dollar swing in currency?

Second question I just had was really looking at CapEx, and you've used NOK 7.76 to give us the updated guidance. Based on the current run rate we've already seen, I'm looking at more like \$16b of CapEx, or can we expect that to really increase in Q3 and Q4 as payments on Johan Sverdrup start to kick in?

Thirdly, just Torgrim, I'm wondering why you're moving from the role of CFO to the US, maybe just a little bit of personal color you could shed on that. It seems like a step down, or are you going to get paid any more or less? Is there a tax advantage to that? And what's your sort of career outlook?

And then just finally --

Peter Hutton - Statoil ASA - SVP IR

Hamish, Hamish, Hamish.....

Hamish Clegg - BofA-Merrill Lynch - Analyst

-- on tax, you mentioned the cash taxes are being charged on 2014 oil price levels. When you look at the effective run rate, it appears that you're running at nearly half the cash tax levels that you were at last year. So correct me if I'm wrong, but it looks like the cash taxes that we're already seeing for the first half this year are implying a 70% tax rate that we would normally expect.

Torgrim Reitan - Statoil ASA - CFO

Okay, thank you. So on the dividends, so we want to change our presentation currency to dollars, and we'll do that from the first quarter next year. And the reason for that is that we are a dollar business, so we want to take away currency noise in our reporting, so it's a much better match to the business.

And at the same time, we also find it natural to declare the dividend in dollars, as well, because we want the dividend commitment to match the business, which is a dollar business. So we are doing that now, and we are changing the declaration currency from the second quarter. It is to take away uncertainty and speculation from this, just firm it up right away.

And looking at the forward curve --

Hamish Clegg - BofA-Merrill Lynch - Analyst

And it's cheaper. And it's cheaper for you in dollars, am I right in thinking, than it was a year ago?



Torgrim Reitan - Statoil ASA - CFO

Well, we are a dollar company, and we measure everything in dollar, and that's the way we look upon all our commitments as such, so this just makes sense, business wise.

Then, on your CapEx guidance, so I answered that earlier on, so I don't have to repeat that. It is, of course, currency related.

Then, on personal note, on moving to the US, I'm very encouraged by having the opportunity to take a broad leadership task and heading up an area that will be very important for Statoil in the future, so really looking forward to do that. Of course, it's hard to leave the CFO role, because I like it so much, but it's very easy when I know what I'm going to do over the next period.

The last question, I didn't figure out what was what.

Hamish Clegg - BofA-Merrill Lynch - Analyst

It was just on the tax side, you mentioned that the taxes you'd been paying in the Norwegian continental shelf this year were based on 2014 oil prices, implying that we could expect the tax to come down in the second half of 2015.

Torgrim Reitan - Statoil ASA - CFO

You are absolutely --

Hamish Clegg - BofA-Merrill Lynch - Analyst

I was just looking at your numbers. It doesn't appear that they're -- it appears they're already nearly half of where they were in 2014, so I was just wondering, analytically, if that made sense, to expect taxes to come down the second half of the year.

Torgrim Reitan - Statoil ASA - CFO

You have to look at paid taxes, and that is going to be lower in the second half than in the first half of the year.

Peter Hutton - Statoil ASA - Head, IR

Thanks, Hamish. Before we move into the next question, can I just repeat, we do ask to keep it to one or two questions for a reason. We are time constrained, so if we move to the next question, if you could maintain the discipline, that will be helpful for everybody. Thank you very much.

Operator

Anne Gjoen, Handelsbanken.

Anne Gjoen - Handelsbanken - Analyst

Thank you. Good afternoon. Two small questions. Are you willing to give an indication of by the end of this year, net debt to capital employed, for example, with your gas price of today or at \$60?

And the second one, the maintenance activity is rather low that you're guiding for third quarter and full-year guiding. My understanding is that this will be considerably higher next year. Have you got any comments more specific on that? Thank you.



Torgrim Reitan - Statoil ASA - CFO

Thank you, Anne. So we haven't given any specifics on the net debt for the year end, but you should expect it to increase in the current price environment towards the end of the year. It will also be impacted by the dollar/krone rate, as well. So it's very hard to give a specific number on this, as that currency cross is very volatile, and this is also partly the reasons why we are actually shifting to report in dollars, to take away that type of noise.

When it comes to maintenance next year, you are right. The maintenance level next year will be higher than in 2015, and we will have to refer later on the specific numbers on that.

Anne Gjoen - Handelsbanken - Analyst

Thank you.

Operator

Rob West, Redburn.

Rob West - Redburn - Analyst

Hi there, Torgrim. Thanks very much for taking my question. I've got one on Johan Sverdrup, which is so interesting, because the first big project in the majors portfolio that's really going through contracting during this downturn. If I add up all the contracts that you've announced, I don't think that includes almost all of the kit except -- or the large awards, except one jacket and some of the [.....]. You're about NOK40b, or a third of the way towards your NOK117b target for phase one. That leaves quite a lot of headspace to contract a jacket, some surf and all the small missing pieces that aren't in that NOK40b.

Given that, I was wondering, is there anything you can say about how the cost so far is coming in relative to what you expected? Anything around the contingency in those numbers or what you need to see to really be sure of hitting that phase one budget?

And I have one more on the dividend, but I'll pause there and honor Peter's request of one question.

Peter Hutton - Statoil ASA - Head, IR

Thanks, Rob.

Torgrim Reitan - Statoil ASA - CFO

All right, so Johan Sverdrup, there's an excellent progress in the project, and there's no loss of momentum, so that's very good. We have awarded five major contracts, and in addition, a lot of smaller contracts, as well. And you are right, summing up all of the awards, it's close to NOK40b. I will not comment specifically on how this is compared to the total number, but we see that we are able to take -- to have the current environment reflected into the contracts that are awarded.

Rob West - Redburn - Analyst

Okay, thanks. That was a sort of enigmatic comment, but makes sense. Could I ask one more on the dividend there? I sympathize a little bit with Hamish's point that we're effectively moving the entire P&L from krone to dollars at the weakest krone for about 10 years. I guess the tangible impact of that is we're converting the dividend at the weakest krone level in that 10 years, as well. But I just wonder, if we were in a world where the oil price went back up and the krone began strengthening against the dollar again, would that mean you could increase the dollar dividend as a result, because you're going to pay some of it in krone, that the FX now works in your favor? There's no cap at being at \$0.22 per share forever, is there?

Torgrim Reitan - Statoil ASA - CFO



Okay, thank you, Rob. So it makes business sense to make this shift, and we want to take away the uncertainty for the investors, and we are a dollar company, and we are dollar exposed, and the investors in our stock get a dollar exposure when they invest in Statoil, and the dividend stream will from now on be a dollar stream and so on. And, of course, the currency cross between --

Rob West - Redburn - Analyst

My point is more in --

Torgrim Reitan - Statoil ASA - CFO

The currency cross between dollar and krone can go both ways from here, as it always can, and the forward curve is what it is.

Rob West - Redburn - Analyst

But if the dollar was to begin weakening rapidly against the krone, is there any -- you wouldn't rule out increasing the dollar dividend, because dollars are now cheaper relative to krone?

Torgrim Reitan - Statoil ASA - CFO

Thank you for the question, Rob, but this is not the time and place to announce an increased dividend.

Rob West - Redburn - Analyst

Fair point.

Torgrim Reitan - Statoil ASA - CFO

So --

Peter Hutton - Statoil ASA - Head, IR

You might want to just comment that it moves up, it's going to be set in dollars, that it's automatically translated into krone.

Torgrim Reitan - Statoil ASA - CFO

Very important that we don't create any unclarity here, so the second quarter dividend is \$0.2201 per share, and the intention is that that is the same for the third quarter, and then when you come to the fourth quarter 2015, the AGM will, based on a proposal from the Board, decide on the dividend level, and it will take the basis in the dividend declared in dollars.

Rob West - Redburn - Analyst

Thank you.

Operator

Torbjorn Haland, Fearnley Securities.



Torbjorn Haland - *Fearnley Securities - Analyst*

Good afternoon. Thanks for taking my question. A question on the realized oil price. It seems you realized a lower discount to Brent for the international division. Can you give some color to the background for that? Also, some color on what you expect going forward?

And secondly, also on the return on average capital employed, on your outlook section, you say that you expect to maintain this 2013 level adjusted for price and foreign exchange effects. Could you give some comments to what you mean by that? Thank you.

Torggrim Reitan - *Statoil ASA - CFO*

All right. So Svein Skeie here will respond to the return on capital employed, and how we will make adjustments to that.

When it comes to the realized oil prices internationally, we see the same reduction in realized oil prices internationally as we do in Norway since last year, 44% and 45%, respectively. The international realized oil price is impacted by the Peregrino quality in Brazil, which is lower realized price than Brent. And in addition, there will be the other qualities, but also in particular realized prices in the Bakken field, as well.

So then on the return on capital employed, so, Svein.

Svein Skeie - *Statoil ASA - Head, Performance and Risk*

Yes, on the return on capital employed, as you said in the guiding, you said that having at a similar level as 2013 level, which we communicated at the capital market update in 2014. We showed based on actual prices then for what it was last year. We're also then showing sensitivity in the 20-F regarding then impact of oil prices and gas prices pre and after taxes and how that impacted.

Peter Hutton - *Statoil ASA - Head, IR*

And before we move to the next question, can I just say, we want to keep this call short to let people get away for other things that I know are starting shortly in the sector. We still have three questions, which we will take, so we'll extend the call very slightly so that we can do that one, but please can I ask if we can keep the questions pretty short, so that we can use people's time fully and effectively. Thank you.

Operator

Nitin Sharma, JPMorgan.

Nitin Sharma - *JPMorgan - Analyst*

Afternoon, Torggrim. My question is on the 2016 operational efficiency target of \$1.7b. You've given an update on the good progress that you're making, so I thought probably get some clarifications on that. I think that number of \$1.7b includes OpEx and CapEx savings, probably over \$1b coming from CapEx, remainder from OpEx and SG&A. Could you maybe confirm that breakdown and then give me what net of tax cash impact is from SG&A efficiency savings, if you were to achieve that 2016 target please?

Torggrim Reitan - *Statoil ASA - CFO*

Okay, thank you, so \$1.7b, you are right. There is \$1.3b related to CapEx and \$0.4b in OpEx of that target, roughly. And the improvements will come across the board, both in Norway and in internationally. The Norwegian savings will have a sort of smaller impact on after-tax earnings due to the tax rate than the international improvements.

Nitin Sharma - *JPMorgan - Analyst*



Should I be using a 70% tax rate, average tax rate, of the company for the coming up with the post-tax number for OpEx savings, please?

Torgrim Reitan - Statoil ASA - CFO

Well, I think that's pretty fair. I think it's also fair to say that any improvements done on CapEx you will probably -- there's a lag on depreciation and all of that, so you get a more immediate impact on cash flow on CapEx than on OpEx. All right.

Nitin Sharma - JPMorgan - Analyst

Thank you.

Operator

Theepan Jothilingam, Nomura.

Theepan Jothilingam - Nomura - Analyst

Yes, good afternoon. I've got one question, just one point of clarity, just on Statoil's CapEx, Torgrim, can you just clarify how much of the CapEx is non-dollar, because you talked about the FX moves, so I'm just trying to understand what's non-dollar in there. And then secondly, my question is more on could you discuss perhaps what you're seeing in terms of underlying gas demand in Europe both for the first half, but then how you see the outlook in the second half. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay, thank you, Theepan. So on CapEx, the investments in the Norwegian business is -- CapEx is mainly dollar driven across the board. Within the Norwegian spending, there are some Norwegian krone exposures, but it is quite limited.

When it comes to the European gas market, we are probably seeing from our numbers that the realized prices in the gas market has remained very solid over the last year, and we are very glad to see that. We see that is a robust market, and we are able to generate significant value from our gas business in Europe.

So there is an underlying gas demand in place, and we see an increasing demand for Norwegian supplies to -- in particular, both the Western part of Europe, but also towards the Eastern part of Europe. So we see gas as being solidly on the energy roadmap for the future in Europe.

Theepan Jothilingam - Nomura - Analyst

And just coming back to -- is that NOK number in CapEx, is it less than 10%? Is it 5%? I'm just trying to get some sort of feel, given that you talked about CapEx being somewhat lower if you go mark to market.

Torgrim Reitan - Statoil ASA - CFO

I think maybe we can -- no. We won't go into specifics, but it's a limited impact.

Theepan Jothilingam - Nomura - Analyst

Okay. Thanks very much.

Operator

Neill Morton, Investec.



Neill Morton - Investec - Analyst

Good afternoon. My last question was on CapEx, so I have no questions. Thank you.

Operator

As there are no further questions, I would like to hand the call back to the speakers for any additional remarks.

Peter Hutton - Statoil ASA - Head, IR

Thank you. Well, thanks, Anne, and thanks, everybody. I'd like to take the opportunity to thank everyone for participating in the call today and to thank Torgrim and to take the opportunity to wish him the best of luck when he starts in the US. Next quarter, I look forward to doing the call with Hans Jakob for the third quarter.

So with that, I will close the call, let people move on, but as ever, if any further questions or follow up, please don't hesitate to contact investor relations. Thanks very much indeed. Good afternoon.

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