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STL.OL - Q3 2015 Statoil ASA Earnings Call

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OVERVIEW:

Co. reported 3Q15 adjusted earnings of NOK16.7b.

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PRESENTATION

Peter Hutton - ***Statoil ASA - SVP, IR***

Good afternoon everyone and thank you for joining us in the conference call for Statoil's 3Q results 2015. My name is Peter Hutton, Head of Research for Investor Relations and I'm delighted to welcome Hans Jakob Hegge to lead the call, having taken over as CFO since August 1.

Also participating on the call are Svein Skeie, Head of Performance Management and Risk; Orjan Kvelvane, Head of Accounting. We'll have a presentation from Hans Jakob for around 15 minutes and then we'll open up for questions. And we expect to complete the call by around 1:30 UK time.

And with that, I'll ask Hans Jakob to start this off.

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Thank you, Peter. Good afternoon and welcome to everyone attending this conference call. May I start by saying that I look forward to presenting Statoil's results and taking questions as this is the first opportunity to speak to you as CFO of Statoil. The focus remains the same as previous quarter; safe and efficient operation, reducing costs and positioning the Company for the future.

Let me start with the three main messages today. First, we delivered strong performance in a challenging environment. Operations remain solid and reliable, generating strong cash flow and keeping our balance sheet robust. However, even though we have improved on our cost base in underlying currency, we have seen weaker results from international upstream, which I will address shortly.

Second, we continue to see cost improvements coming through and becoming more systematic, with adjusted OpEx and SG&A down 15% YoY and segments are weighted in underlying main currency, showing not only in our bottom line but also in our organization and culture.

Third, we continue to make significant improvements in our capital expenditure, allowing us to reduce our guidance for CapEx in 2015 by $1 billion to around $16.5 billion and we are bringing down the breakeven on several unsanctioned projects towards levels which look attractive even at current prices.

As announced earlier today, two of our development projects, Aasta Hansteen and Mariner, have been delayed by one year. At the same time, we communicated improvements on Johan Sverdrup. As a reminder, the dividend remains unchanged at $0.2201 per share. The dividend will be stated in Norwegian kroner at the effective exchange rate closer to payment as we announced last quarter.

Moving on to strong production performance, third quarter with another quarter of strong pace and reliable production. Our production efficiency was above 90% on NCS with unplanned losses below 4%. High regularity on our assets produced some of the most profitable incremental barrels.

Overall, our equity production was up 4% year-on-year, that is 7% adjusted for divestments. Jack/St. Malo is now ramping up strongly from first production in December last year and its achieving good flow rates. And we are seeing the benefit of projects which started last earlier last year such as Gudrun and CLOV.

In addition, we have Valemon, which started earlier this year and more fast track projects. We're also realizing value over volume from gas machine and this has contributed well as prices are higher than last year.

Looking at Norway, the production was up 8% year-on-year. That is up 10% adjusted for divestments. This is despite the fact that underlying decline remains around 5%. More than half of the growth came from operational improvements and new deals. The other half came from a successful decision to defer production in 2014, an example of value over volume as we realized higher prices. Equity volumes in the International segment were 1% lower overall, reflecting the Shah Deniz disposal.

Moving to the next slide, adjusted earnings by segment. We have got quite a lot of information on this slide, but I'll take you through it. Clearly, results in the third quarter reflects a Brent price which was down over 50% YoY and down nearly 20% on last quarter. Our job is to manage the controllable elements and we continue to do so very actively.

Upstream operations in Norway delivered adjusted earnings of NOK15.5 billion and NOK5.1 billion after tax, down 33% and 22%, respectively. The adjusted earnings were supported by continuous strong operational performance, giving 10% underlying production growth. The impact of lower crude price was partially mitigated by lower cost and lower discount to the Brent prices. However, we also saw higher European gas prices in Norwegian kroner.

Adjusted OpEx and SG&A per barrel were down 10% compared to third quarter last year, reflecting increased cost efficiency in our operation. DD&A cost per barrel increased 1%, reflecting higher depreciation as we ramp up production on new fields such as Gudrun and Valemon.

Moving on to D&P International, that was challenged by tougher pricing environment in third quarter. Adjusted earnings moved from a small loss in the second quarter to minus NOK4.2 billion this quarter. The negative results in US dollar is further more impacted by the US dollar/NOK exchange rate development. We are not pleased with these results and I'm very focused in our actions to improve.

To improve profitability, we have worked hard on reducing cost. Year-on-year, we see 22% reduction in adjusted OpEx and SG&A per barrel in US dollar. These cost improvements are important contributions in a challenging oil price environment and shows that our efficiency efforts are paying off. DD&A per barrel in US dollar has been reduced by 17%. Underlying production was up 4% as operating momentum is progressing in a very positive way as we continued to shift to more attractive areas.

MMP has changed its name but hasn't changed its ability to deliver strong earnings. Adjusted earnings were up 36% to NOK6 billion. After tax, adjusted earnings increased by 83%. The main driver for the strong result has been continuous high European refinery margins. High reliability at our refineries has put us in a position to take advantage of this high margin environment.

Liquid trading has delivered strong results across the board and is benefiting from continued contango in the oil market. Downstream activities normally in a lower tax environment compared to upstream. In this quarter, we see high after tax contribution from this part of our business.

Moving to the next slide, financials results. As we have seen, this Group figures include the benefit on strong operational performance and continued progress on cost. However, these are not sufficient to make up the reduction in prices year-on-year with Brent prices down by more than 50%. At Group level, our net operating income is NOK7.3 billion, excluding adjustments of NOK9.4 billion.

Let me take you through the adjustments. First, net impairment charges of NOK4.8 billion, mainly related to exploration assets and unconventional assets on shore in the International segment. Second, provisions from disputes of NOK3.3 billion and net other adjustments of NOK1.3 billion. We reported adjusted earnings of NOK16.7 billion, that was down 46% from third quarter last year, mainly reflecting the lower price environment. Effective tax rate at around 78% was higher than last year due to the losses in the International upstream, which tends to have lower tax rate. Overall, we report adjusted earnings after tax of NOK3.7 billion.

Then we move to the slide on cash flow 2015. Despite the pressures from oil in the $50s, we are pleased that we remain close to neutral on free cash flow year-to-date after dividends. This includes proceeds from divestments of around NOK27 billion. We are seeing resilience in our cash flows and the benefits of exercising flexibility in our capital spending. On top of this, we have strong underlying production efficiency and lower OpEx and SG&A per barrel in local currency. We will be updating the outlook in February next year.

Our adjusted net debt to capital employed was 24% at the end of third quarter. This is a small increase from second quarter due to currency impacts and a small increase from impairments.

What about the outlook for 2015. We move to the last slide in my presentation. We have positively revised all elements of guidance for 2015. First, capital spending is reduced by further $1 billion to around $16.5 billion. This is down 8% on the $18 billion guided in February at our Capital Markets Update, which was in itself a 10% reduction on previous plan for 2015. There are several drivers. We are making better progress on the improvement initiative. We are prioritizing the use of capital very strictly. We are starting to see some impacts of cost deflation and the weaker NOK also contributed as some of the NCS CapEx has NOK as underlying currency.

Second, we expect organic growth of over 3% in production this year, ahead of the 2% we said in 2015 and 2016. This is, as before, based on 2014. It is adjusted for divestments and reflects high production efficiency, lower impact from maintenance and higher flexible gas volume.

Third, the impact from maintenance is reduced to 40,000 barrels in the year and to 15,000 barrels in the fourth quarter.

And last but not least, we expect exploration expense to total around $3 billion in the year, down from our guidance of $3.2 billion in February. We will drill a similar number of wells as expected but with greater efficiency.

To conclude my presentation, we see the imperative for continued improvement. We are taking action and I look forward to providing a more detailed outlook at the Capital Markets Update, February 4, next year.

With that, I ask Peter to take us into the Q&A part of the call.

Peter Hutton - ***Statoil ASA - SVP, IR***

Thank you, Hans Jakob. With that, we'll open up for questions and the operator will explain how to register.

In the interest of time and fairness, I ask everyone to keep to one or absolute maximum of two questions. If there are any outstanding question, there may be time to come back later in the call or we can follow-up dial directly in Investor Relations.

So, without any doubt, we'll open up for questions and explain the process. Thank you.

QUESTION AND ANSWER

Operator

(Operator Instructions) Michael Alsford, Citi.

Michael Alsford - ***Citigroup - Analyst***

I have two questions. Just firstly, on the priorities of the Company, could you confirm in terms of priorities whether you're willing to perhaps go above your gearing framework of 15% to 30% in order to maintain the dividend policy of the Company and where do you see perhaps the level of gearing that would perhaps mean that dividend becomes more at risk if the macro remains weak?

And then just secondly on the International E&P business, could you give some color as to what drove the further impairments since second quarter in the US onshore and what was the driver behind the reversal of the impairments on the offshore assets in the Gulf during the quarter?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Firstly, the dividends, there is no change in policy and we have strong commitments to our dividend policy. We see this as a confirmation to our financial discipline. We have guided on 15% to 30% gearing and we'll say that, that's not a sacred band. If there are M&A opportunities coming up, we might look at that but with a plan to be within the band. So the dividend policy remains firm.

Impairments, looking at the impairments, we explained that we have a net of around NOK5 billion. The reason for the dividends early on, Kvelvane could take us into. We did not comment on specific assets but as I understand, this is question around Gulf of Mexico and the impairment figure.

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

So you had a question on onshore, the driver for the impairment and that is mainly market effect, that the prices, you see the forward prices of liquidity is going down and that also impacts on the onshore. On the offshore, yes, there are negative markets attached as well but there are asset-specific improvements as Hans Jakob commented upon. We are working hard on improvements and at some point in time we take in some specific improvements into the models and this time that has a very positive effect and that is the basis for that results.

Operator

Haythem Rashed, Morgan Stanley.

Haythem Rashed - ***Morgan Stanley - Analyst***

Two questions from my side. Firstly, on the international business, I wonder if you could just spend a little bit of time talking about how exactly and want are the sort of things that are being done to turnaround some of the weakness in the results here because as you highlight, costs are coming down already quite a lot, DD&A per barrel is also down. Is there a lot more on the cost side that you can do over and above that 22% that you think which can help drive a better result there?

And then secondly, my question sort of semi-related to this, given the tax impact of the loss in the US over the quarter, is there anything you can say about 4Q and tax rate guidance over the next couple of quarters? Is there -- should we expect the tax rate would remain quite high over the next couple of quarters if the International business continues to underperform?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

DPI or the International had a loss of NOK4.2 billion in 3Q prior to tax and as you know, we're structurally more exposed to the oil price than the DPN. We see significant improvement in the controllable elements such as OpEx and SG&A that were down 22% year-on-year. The DD&A is higher in NOK but down 17% year-on-year per barrel in US dollars. And the production growth is 4% corrected for divestments and we also had some 3Q specific elements as part of the International results.

Moving to the tax rate and fourth quarter, Svein, would you answer that question?

Svein Skeie - ***Statoil ASA - SVP, Performance Management & Analysis***

Yes, I can give some reflections around the tax rate for the International segment, and as we've also explained earlier is that it's the early competitions coming from the different countries that will have an impact on the tax rate. Of course, in some countries, we have a positive contribution and in others, where there are less contributions, there is also often lower tax rate and that will imply that the tax rate can vary a bit. So, you should also then expect that could happen also going forward on the tax rate for International segment.

Haythem Rashed - ***Morgan Stanley - Analyst***

Hans Jakob, if I could just quickly just clarify the first part, are you saying that if oil prices remain where they are now and oil and gas prices remain sort of at similar levels, that ultimately sort of the profitability in the international business is unlikely to improve dramatically from where we are at the moment or perhaps you could just sort of explain, is there sort of more that can be done on the cost side, even in this sort of oil price environment that would mean the sort of the losses that were made in 3Q could be reversed?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

No, there were some specifics in the quarter. And, as the improvement efforts move along, you could see a positive contributions from the International moving forward.

Operator

Oswald Clint, Sanford C. Bernstein.

Oswald Clint - ***Sanford C. Bernstein - Analyst***

Can I ask a question on the US onshore portfolio? I wonder if you could give us some more specifics in terms of kind of drilling cost reductions and the OpEx reduction in that side of the business just so we can kind of compare it with some competitors, that would be useful.

And then maybe a question on Aasta Hansteen and Mariner, I guess it's unusual to see projects going up in costs these days. So, could you just explain a bit more thoroughly what exactly has happened there?

Hans Jakob Hegge *- Statoil ASA - EVP & CFO*

First, on the US onshore business, we are working hard on the improvement program, taking out synergies from reorganization, we also have some restructuring costs and layoffs. So we are working on improving the business and attracting the learning from the various assets and, compared to peers, we see very encouraging progress and results.

Moving to Aasta Hansteen and Mariner, as we have announced, we have postponements of one year. One of the reasons for the project delays is engineering equipment packages and capacity and additional consequences. On Aasta, it is 9% increase. The CapEx is up NOK2.8 billion and there is NOK2.4 billion in currency. And on Mariner, we announced 10% CapEx increase. So this has negative impact on profitability in the isolation but we are working from a portfolio of more than 40 projects and then not to forget we've had three discoveries this year, adding volumes to Aasta and improving the economy.

Operator

Jon Rigby, UBS.

Jon Rigby *- UBS - Analyst*

Two questions, please. The first, you referenced some number of issues of what was driving your lower CapEx figure. You've had some significant success in driving down OpEx, which if you listen to other companies, seems to be the more difficult thing rather than CapEx. So, could you perhaps talk about and you referenced cost deflation, but you seem to say that there wasn't significant cost inflation in the adjusted figure. So, perhaps could you sort of talk a little bit more about a snapshot of where you're seeing cost inflation right now and how it might affect your CapEx into 2016 where I assume that it will be more impactful, if you could do that please.

The second, just going back to the tax issues and particularly, I guess, the US, I sense that the taxpaying position is quite important here as I understand it because you've obviously got tax loss carry forwards as well. So, from an accounting perspective, what's the oil price you would estimate that you start becoming theoretically taxpaying although obviously sheltering it with the tax loss carry forwards and so, some has to reverse the effect that we're seeing now, which is high accounting tax but low cash and certainly around the other way? Could you give us some more insight into that?

Hans Jakob Hegge *- Statoil ASA - EVP & CFO*

First, on the cost savings, I'm very pleased to see that OpEx and SG&A were 50% down year-on-year in underlying currency and looking at DPN, the OpEx that were down per barrel driven by reduced activity level, lower use of external services and overtime, as you know, I used to be an operations guy and on Snøhvit, the top prioritization, we reduced personnel from the suppliers, utilizing our own staff, simplifying the work processes and very strict prioritization and we're going through some substantial changes in that respect. Our efforts are also paying off in International as we see lower O&M costs and SG&A savings. In addition to that, one-third of the cost reduction in INT comes from lower royalties. I would also like to mention the softening of the supplier market as we have more than 500 initiatives to renegotiate and re-bid and we see further benefiting from a softening market in the contract awarded. And maybe it's a bit technical but we've also done some changes to the way we split contracts and share it that have been made. So, these are some examples of cost improvements. And Ørjan: We have a very specific question related to the prices in the US.

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

So, as I understand it, you ask about how to recognize the tax loss that you see in the US and the accounting rules are pretty strict because you need to see that you had utilized the tax loss carry forward before you kind of start to recognize this in the tax assets. So if you cannot see that in the near-term that you have utilized all the tax losses than you are not allowed. I don't think I will be specific when we see when we believe that, that will happen, but we are not in a position where we have utilized that to defend having a tax asset in the balance sheet right now.

Jon Rigby - ***UBS - Analyst***

I will just come back to you on the cost question. Would it be reasonable to conclude that you obviously have sort of greater velocity around OpEx than you do around CapEx, so would it be reasonable to conclude that 2016-2017 will begin to see some of the flavor that is clearly evident in the OpEx trajectory, in your CapEx trajectory, will we see some of the clear benefits being driven through OpEx right now contributing to even further through optimization benefits in CapEx?

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

Well, what we guided at the CMU is on CapEx side in 2017-2018, you have NOX5 billion to NOX7 billion in flexibility. I think we demonstrated today and this year that we are using the flexibility and we'll come back on these issues at the CMU in February next year.

Jon Rigby - ***UBS - Analyst***

Sorry to see this point but obviously, the world is changing very rapidly. So I was just trying to sort of get some color on sort of thinking between February of this year and now, given your experience with the success around the OpEx is, is that a theme that we could expect to be expanded upon on the CapEx outlook next time you revisit that?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

What you have asked us is our outlook today. I made some changes as announced and we're giving examples of that and another example, maybe a last one in this round is also the starting levels, which just it changes in the US. We used to be 25,000 employee company. We are now just above 22,000 at the moment and we expect to be just below 21,000 in 2016. So that's just another example of the dynamic.

Operator

Teodor Nilsen, Swedbank.

Teodor Nilsen - ***Swedbank First Securities - Analyst***

I've two question. First, on Troll, the gas production at Troll has been very strong over the past few quarters. Now I guess that do not represent a normalized production. So could you please indicate what we should assume as a normalized production for Troll going forward?

And second question is on the impairments. Over the past few quarters, you have looked to at substantial impairments in particular related to the North American business. Assuming that the forward curve increases by $10 per barrel, how much of the impairments would you be able to reserve?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Troll is in my heart as I used to be the Operations Manager of Troll some years back and what I know from Troll and Oseberg is that it is our flex-gas fields and I think we've made good decisions to defer production in 2014 to this year due to the stronger prices in the European Gas market we utilized this with our value over volume strategy. Moving forward, we do have the flexibility but it's too early to say the production of gas from Troll due to uncertainty about the market place.

To your second question, impairments North America forward, this is quite dynamic. We have done impairments, we do also reversals and this is part of, to some extent changes in the forward curve but also the modeling around fair value or looking at the market which, in other instances, you have little activity and a few reference points. So these are dynamic considerations for triggering impairment and reversals.

Operator

Rob West, Redburn.

Rob West - ***Redburn - Analyst***

A quick question for me is really on international realizations and just to get a sense of was there any one-off factor like a underlift coming to the realizations in your DPI segment this month or anything more persistent like challenging realizing full value for any particular volumes, any particular region, that you think could last into future quarters?

And then secondly from me, the CapEx budget going down $1 billion as announced this morning, can you just say something around potential fear maybe that some investors might have that maintenance is what is getting cut as part of that product reduction? Anything you say around that would be great, would be assuring.

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

The first question about one-offs in the International, there are some one-offs. One example is the restructuring costs in the US. On the CapEx, the drivers for the reduced CapEx is, as you know, we moved from $18 billion, that was a cut from $20 billion last year, then to $17.5 billion last quarter, to $16.5 billion this quarter. We are making better progress on the improvement initiative. We're definitely doing strict capital prioritization.

Rob West - ***Redburn - Analyst***

I'm not sure if my line is still open. And then, specifically on the realization, so the revenue per barrel metric?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Okay, Svein, would you fill in on that one?

Svein Skeie - ***Statoil ASA - SVP, Performance Management & Analysis***

And if you look at the realized prices for INT segment, you see on the oil side that it has been around $40 per barrel. We are then exposed in several markets for oil production, some with very light crude but, we're also then producing some fields with more heavier quality which have a higher discount in the current environment. On top of that, we also then have quite a bit of liquid production from the US which is then exposed to different market onshore than we have for the rest of it. If you look then at the gas price, you could also look at that one and this costs are compared with the last quarter in International segment. Last year, we had Shah Deniz as a producing entity, impacting the gas price. Now we have some gas production from Nigeria. Rest of the gas production is coming from US and we stand much more exposed to the Henry Hub which in this quarter, the Henry Hub price was in the two'ish.

Operator

Anish Kapadia, TPH.

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

Couple of questions, please. Just firstly on US onshore, I was just wondering at current oil and gas prices, do you just see the need to reduce activity further and kind of on the flip side of things, what kind of oil price, what kind of gas price do you need to start adding rigs back in the likes of the Bakken and the Marcellus?

And then secondly, I just wanted to get somewhat of an update on your potential FIDs, the timing of these, if so they are indeed still plans, just on some of the key projects, Johan Castberg, King Lear, Brazil and Tanzania LNG, if you could give some dates around those if you're still planning to go ahead with them?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

The US onshore oil and gas prices and the need for reduction in activity, they're working hard on improving the business and as I said, we've reorganized the business. Torgrim, the previous CFO has been quite actively re-organizing, doing some staff reduction, moving activity to Austin and trying to extract synergies from the various fields and more standard way of extracting the learning. On Bakken, we have quite a high share of our overall production and we have taken down the rig. We also look at utilizing the flexibility in the US business in order to adjust to the current price environment while continue to improve our operations.

And looking at the potential FIDs on timing, we have quite a long list of projects. We try to improve on the project and Johan Castberg is a project that I know quite substantially about from my previous role and it is very rewarding to see overall that in this bucket of portfolio, we have been able to take down the breakeven prices substantially and Johan Castberg in particular was around 80 breakeven at the point and we've said that it's around 60 and we're continue to improve it and we won't sanction it until we've actually seen that it has taken off all the benefits and we have a updated list on those project, and cost side in particular, is estimated production cost, late 2022, as an example but I can't go on into all the details, because we have quite a long list.

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

Just clarifying on the first question, so at current oil and gas prices, given the improvements you've seen in cost and CapEx, you don't see the need for activity any further, is that correct?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

We're taking it a little bit down, while we are improving on it. But we have further flexibility and we also have the opportunity to scale up when prices are having a rebound.

Operator

John Olaisen, ABG.

John Olaisen - ***ABG Sundal Collier - Analyst***

Two questions from me please. One, at the Capital Markets Update in February this year, you said that you expect to have free cash flow that would cover the current dividend in 2016 with oil price at $100. Since then, you have kept to a CapEx and exploration and operating cost that you highlighted for 2015. I just wonder if you could update us on that free cash flow to cover dividend that would oil prices at now for 2016, please?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Well, regarding -- we've done an update on the outlook today. We'll revert to this issue at the CMU next year.

John Olaisen - ***ABG Sundal Collier - Analyst***

My second question is on gas demand in Europe. One thing is your production regularity but I guess the main driver of your gas production and sale is demand from Europe. The year-on-year gas production from you guys in Q3 was up roughly 20% compared to Q3 last year. So, I just wonder what is going on? Is it higher gas demand from Europe or is it lower supply from other suppliers of gas into Europe?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

We get quite a few questions on the European gas market and we are seeing good prices, we have produced the flex-gas and it's the final value over volume as I said. We do see volatility in the European gas market moving forward, but we also see some reduced volume from European producers, the UK and Groningen as an example.

John Olaisen - ***ABG Sundal Collier - Analyst***

Not any change for the European gas demand, is it improving and how about Russia, may I just follow-up please?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

It is stable.

Operator

Biraj Borkhataria, RBC.

Biraj Borkhataria - ***RBC - Analyst***

The first one was another tax question. On cash taxes, they were particularly low again this quarter, which is one of the reasons that helped your free cash flow generation. I was just wondering if you could remind us of the schedule of payments for each year in terms of how much cash tax is paid each quarter. And then the second one on the midstream, you've guided -- well, again, another strong result today and your old guidance was NOK3 billion to NOK4 billion per quarter. I was wondering if that is still relevant going forward and heading into 2016?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Regarding the tax payments that you saw in the quarter, not that high compared with earlier one but that is also due since we only have one installment in the third quarter in the taxes for Norway. We had a payment of, an installment, October 1. That's why we then included half of that one in our net debt ratio calculation. We've paid one installment, October 1, and then we will pay the final installment this year at December 1.

But I also want to remind you that during the year, the first half of the year, we paid the taxes coming down from the results in 2014. In the second half of the year, we are paying the taxes then coming from 2015 and we will pay the last half of those 2015 taxes in the first half of 2016. That's also why the taxes have come down compared with what we saw in the first half.

Biraj Borkhataria - ***RBC - Analyst***

And on the midstream guidance?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

The MMP business has traditionally been between NOK2 billion and NOK4 billion. It is strong refinery margin, high regularity and we are not changing the guiding on the MMP.

Operator

Lydia Rainforth, Barclays.

Lydia Rainforth - ***Barclays - Analyst***

Two questions if I could. The first one, just to pick up on something, an answer to one of the earlier questions around the gearing levels not being affected in the event of M&A activity, can you talk through what the hurdle criteria would be for any M&A options that you would look at? And the reason I ask that is when I look at the impairments over the last 12 months to 18 months, it does appear that the impairments that have been taken have been primarily in assets that have been acquired. So, I just want to make sure that whether you are looking at the M&A activity being competitive with your own internal options?

And then the second one, to you Hans Jakob, your reflections on what you found as CFO in the last two to three months and have there been any surprises within that you found since you started.

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Tempting to go into detail on M&A, but I'm not going to today. We haven't seen a very active market on the M&A, but we are definitely looking at it and if you are to close a deal, we will comment on the announcements. So that's as far as I get on the M&A.

When you consider impairments, it is certainly a dynamic issue. The next impairment is around NOK5 billion, mainly exploration assets. This quarter as the forward price is down 16% from Q1 and 20% from Q2, surprises, yes, you always get surprises the higher level of engagements around the improvements activities is very rewarding to see throughout the organization and we see more and more examples coming off on improvements and that is of course good for a CFO to notice.

Peter Hutton - ***Statoil ASA - SVP, IR***

Could I do say that we've got around -- about 10 minutes left. I'm not sure we're going to be able to get through all of the question. For those who are unable to take those questions, we'll certainly follow-up after the call and we'll take any questions directly through to Hans Jakob offline. Can we move to the next question please?

Operator

Mehdi Ennebati, Societe Generale.

Mehdi Ennebati - ***Societe Generale - Analyst***

Two questions please. The first one on your production guidance for 2015. You say your 2015 equity production should increase about 3% year-on-year, rebased from your estimated. However, to get this 3% or even 4% production growth, you have put a very low production in Q4 compared to last year. So should we then consider a very low production in Q4 2015 maybe because of low natural gas prices? Are you just overly cautious and you should expect your Q4 production at kind of a normal level which would mean a year-on-year equity production growth of maybe 5%, 6%?

The second question regards with your US natural gas production. So, currently, Henry Hub is more or less $2 per MBtu. You highlighted in the written part that integration of (inaudible) in US upstream plus midstream allows you to face a low Henry Hub price. I just wanted to know if at the current Henry Hub of $2 per MBtu, you are free cash flow positive regarding your US natural gas integrated business?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

On the production guidance for this year, we said above 3% and it of course depends on the natural gas market and attractiveness of using more flex-gas. To the US natural gas, as I said, we are adjusting activity a bit and we do have flexibility moving forward and we are of course following the prices very closely.

Mehdi Ennebati - ***Societe Generale - Analyst***

If you are adjusting flexibility in US net gas, let's say, you mean that you are net free cash flow positive at $2 per MBtu?

Svein Skeie - ***Statoil ASA - SVP, Performance Management & Analysis***

If I may add a bit as well, because we have the income in (inaudible) but as you might have also seen from our MD&A, if you look at the disclosure in the back there, the natural gas had then done a positive result of approximately NOK0.4 billion.

On top of that, we also get some income from the gathering system coming into. What you also typically see in the US is that there are more seasonality there. We are taking benefit then from sending the gas up to Toronto as one example and also into the Manhattan and Manhattan typically has been a higher margin in the first quarter. So you also need to take that into consideration and not only the Henry Hub in itself.

Operator

Torbjorn Haland, Fearnley Securities.

Torbjorn Haland - ***Fearnley Securities - Analyst***

I was wondering if you could comment a bit on the other post under adjusted earnings, NOK700 million, little bit on what's behind the post and also how should we think about that going forward?

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

So, NOK700 million, it is consisting of the New Energy Solutions segment and also the technology and project department and all the corporate staff. So the main part of the NOK700 million is from the New Energy Solutions and TPD segment. And it's on the trend that you've seen that is normal level for that area.

Torbjorn Haland - ***Fearnley Securities - Analyst***

Okay. And secondly, if I may, on the CapEx, you mentioned a couple of factors there affecting the lower CapEx. Could you give some color on how much of the lower guidance is related to the foreign exchange and how much is related to the lower activity and efficiency improvements?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Yes, there is a limited currency impact from 2Q. We see -- we're definitely starting to see some impact of cost deflation and as I said, we have strict prioritization and are making very good progress on the improvement initiative. So, limited currency impact from Q2.

Peter Hutton - ***Statoil ASA - SVP, IR***

Before we go to the next question, we've still got a few callers left who have question. In the interest of time, so we get through to everybody, can I ask people to give out just one question each for the remaining question. And then we'll follow up with anything else after the call. With that, we'll move to the next caller.

Operator

Marc Kofler, Jefferies.

Marc Kofler - ***Jefferies - Analyst***

I just have quick question, again coming back to the production guidance, I noticed that you haven't changed the 2% target from 2014 to 2016, despite the increase on the 2015 guidance. I was just wondering if that 2% now in light of what we've seen year-to-date, is that conservative and how much credibility should we be assigning to that 2% based on volumes year-to-date?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Hopefully, we'll meet at the Capital Markets Update in February and revert to that.

Marc Kofler - ***Jefferies - Analyst***

Right. Just following up, just as a guide from here, perhaps to the next year, on the total group. Could you say if pressure might be flat, up or down, perhaps?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

And some price development in flex-gas.

Operator

Ilkin Karimli, Credit Suisse.

Ilkin Karimli - ***Credit Suisse - Analyst***

A quick one from me. Can you just remind us what kind of gas prices your operating cash flow guidance for 2017-2018 is based on both in Europe and the US, please?

Svein Skeie - ***Statoil ASA - SVP, Performance Management & Analysis***

What we said at the Capital Markets Day in February and we gave the guidance on the $60/$80/$100 oil price. We did not have a specific discussion on the gas price of Europe and US.

Operator

Nitin Sharma, JPMorgan.

Nitin Sharma - ***JPMorgan - Analyst***

Coming back to that question on dividend, you reiterated strong commitment to dividend policy. Now that policy promises growth in cash dividend in line with long-term earnings and if we then factor in the lower oil price environment, it obviously means underlying earnings outlook has come down. Given this background, could you maybe clarify, is there a commitment to a DPS number or no matter what the oil price is, you are promising to maintain the DPS or will it likely change as the environment is changing?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Thank you, Nitin, for repeating our dividend policy. We're talking about long-term trend and we are sticking to the policy.

Operator

Brendan Warn, BMO Capital Markets.

Brendan Warn - ***BMO Capital Markets - Analyst***

Just one question, considering the timing. Just in term of Aasta Hansteen and Mariner, just can you tell us your confidence level and just step through what have you done to fully contain the scheduling budget creep or are we expecting further delay and then just in term of the 40 projects, what's the risk then to other major projects such as Johan Sverdrup?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Aasta and Mariner, two, among our 40 projects, that's important to us and Aasta will have a start-up second half 2018, so we have with Mariner a thought of second half of 2018. We have several measures to make those projects robust but I won't go into detail on those and besides that we work hard on the revised schedules and the improvements measures. So we stick to our plans, revised plans for second half 2018 for both of the projects.

Brendan Warn - ***BMO Capital Markets - Analyst***

And considering you haven't reiterated the CAGR production growth 2016 to 2018, do I assume that's at risk of this delay?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

We are not commenting on that. The production guidance for the future is the CMU theme next year. No change today.

Operator

Hamish Clegg, Bank of America.

Hamish Clegg - ***Bank of America Merrill Lynch - Analyst***

Can you tell us a very simple -- I've got a very simple question for you. What is the breakeven gas price in the US for your Marcellus business?

Hans Jakob Hegge - ***Statoil ASA - EVP & CFO***

Svein, would you finish?

Svein Skeie - ***Statoil ASA - SVP, Performance Management & Analysis***

I will not go into exact numbers on this but because it's also dependent quite a bit which kind of acreage you are in, you'll have some acreage that are extremely competitive at very low prices and then there are other areas that needs somewhat higher price. But also, you need also to take into consideration the midstream and the gathering system that is extremely important and can create significant value because as we look at the position that we have there, we see that's a value chain project and then linking both of them together and then taking benefit from the market both in as we had on this quarter in Toronto and also there in Manhattan pipeline that we're having.

Hamish Clegg - ***Bank of America Merrill Lynch - Analyst***

Do you know what gas price you breakeven out?

Svein Skeie - ***Statoil ASA - SVP, Performance Management & Analysis***

We are doing but we are not prepared to disclose.

Peter Hutton - ***Statoil ASA - SVP, IR***

Okay, with that, that's the end of the questions. Thank you very much. We have to close the call after an hour. Thank you everyone for participating. Please feel free to follow up with IR for any questions that you may have. I look forward to seeing many of you in the near future and definitely again I hope in February 4 at our Capital Markets Day next year. Thanks again everybody. Thank you.