

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call**

**Event Date/Time: Nov. 11. 2008 / 8:00AM ET**

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

## CORPORATE PARTICIPANTS

**Lars Sorensen**

*StatoilHydro ASA - Head, IR*

**Peter Mellbye**

*StatoilHydro ASA - EVP, Int'l Exploration & Production*

**Eldar Saetre**

*StatoilHydro ASA - CFO, EVP*

## CONFERENCE CALL PARTICIPANTS

**Joe Allman**

*JPMorgan - Analyst*

**David Heikkinen**

*Tudor Pickering - Analyst*

**Iain Reid**

*Macquarie Securities - Analyst*

**Neil McMahon**

*Sanford Bernstein - Analyst*

**Robert Kessler**

*Simmons & Co. - Analyst*

**Barry MacCarthy**

*Royal Bank of Scotland - Analyst*

**Jon Rigby**

*UBS - Analyst*

**Jason Kenney**

*ING - Analyst*

**Neill Morton**

*MF Global - Analyst*

**Carl Brown**

*Rivers Partners - Analyst*

## PRESENTATION

**Operator**

Good day, and welcome to the StatoilHydro conference call. Today's conference is being recorded. At this time I would like to turn the conference over to your host today, Mr. Lars Sorensen. Please go ahead, sir.

---

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Thank you very much. Ladies and gentlemen welcome to the StatoilHydro investor and analyst conference. My name is Lars Sorensen and I am the head of Investor relations. Earlier today we announced a strategic alliance with Chesapeake a StatoilHydro farm in into the Marcellus Shale gas area in the US. The purpose for the next 45 to 55 minutes is to present the agreement with Chesapeake in a little more detail and allow for questions around the deal.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

With me here in the studio in Oslo is the Executive Vice President and head of international E&P, Mr. Peter Mellbye and Executive Vice President and Chief Financial Officer, Eldar Saetre. After a short presentation given by Peter Mellbye, we will open for questions. Questions can either be sent in via the Internet using the submit questions on your screen or it can be asked directly over the phone after the presentation. The operator will be back and give you instructions as to how to ask questions after the presentation.

The presentation used today can be downloaded from our website, [www.StatoilHydro.com](http://www.StatoilHydro.com). Please note the disclaimer and Safe Harbor statement at the back of the presentation. Without further ado let me pass the microphone to Peter Mellbye.

---

**Peter Mellbye - StatoilHydro ASA - EVP, Int'l Exploration & Production**

Thank you very much. It is a pleasure for me to announce this deal, which in my mind is a very natural build up or build on, on our existing gas strategy. As you are well aware, we have a position in the Cove Point terminal. We have built a significant capacity in terms of gas marketing and trading and we are also a gas producer out of the Gulf of Mexico area. So this deal in my view confess a natural consequence of that strategy. In addition, of course, it adds also a new platform for growth to our company in an area, in a field of activity which we think carries a lot of potential in terms of future growth.

The agreement is as you can see an agreement between two very significant gas players. Chesapeake, the number one producer natural gas in the US and the leading gas shale player; StatoilHydro the second largest supplier of gas, natural gas to Europe. We will enter the Marcellus gas shale play as the first step, and this is important in my mind, we have also agreed to look at opportunities globally within the area of unconventional gas as this is something which in my mind and in the mind of Chesapeake is an obvious opportunity going forward.

We acquired 32.5% interest in the Marcellus play. This represents an area of about 0.6 million acres. The recoverable resources amounts to between 2.5 and 3 billion barrels of oil equivalent. The payment that we make is in the amount of \$3.375 billion, out of which \$1.250 billion is to be paid upfront at closing, and the remaining is to be paid as a carry of 75% as a consequence of Chesapeake executing on its drilling program going forward.

If you look at the consideration on a per acre basis we are paying \$2,100 per acre upfront including the carrying, we are paying \$5,800 per acreage and I think this compares favorably with other deals of a similar nature that has been done recently. The deal is cash flow neutral in 2013 at gas prices well below the current forward curve. In addition to sort of the defined acreage, we will also be participating in Chesapeake's future leases in the Marcellus area.

This does represent a step change in Statoil's US gas market position. It makes us an early mover into what we regard as a very attractive area in terms of the Marcellus. It is obviously early days in Marcellus, and some will point to risk. We find we will also point to the very significant opportunity, and I think there has been a lot of interesting information coming out about the Marcellus during the past few months. The producing opportunities are located close to existing infrastructure and also very close to the attractive part of the US market, something which also was one of the considerations that were made when we entered into position that we hold in the Cove Point terminal. Our equity production will be building up to about 200,000 barrels sometime after 2020. And of course we will integrate these positions into our existing gas marketing outfit in the United States.

Looking then at who Chesapeake are, the company is probably familiar to most of you. It is the largest, one of the largest independent E&P companies in the US. It is a primary player in the shale play. It has 6,000 employees and it holds an acreage of about 15.6 million net acres. And proven resources balance sheet of about 2 billion barrels of oil equivalent proved reserves. Almost more importantly it is the largest driller in the US, operating about 145 drilling rigs onshore.

When we then look at the shale resource potential, the global unconventional gas resource base is about 32,000 Tcf or 5,700 billion barrels. And as such as I said initially, represents very significant resource potential. You know that unconventional gas is found in either tight sands, shales or coal bed methane. And looking at deal flows in other parts of the world this is something

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

that is growing in importance, very much due to the development in terms of producing technologies with the application of horizontal wells.

Next one, please. If we then look at the terms of the deal, I said we will get access to estimated recoverable resource of between 2.5 and 3 billion barrels. The number of wells that will be required is something between 13,000 and 17,000, and the average recovery per well about 3.1 billion cubic feet. The estimated CapEx per well is \$3.5 million, and the operating costs excluding transportation between \$4.5 and \$5 per barrel of oil equivalent. The expected peak production after 2020 at least 200,000 barrels of oil equivalent. Our net revenue interest will be the same as Chesapeake's, about 87%. And this 87% reflects the fact that royalties are being paid to the land owners and about 13% here reflects the average royalty that Chesapeake is paying to these landowners. So basically we feel that we have an agreement which creates a strong alignment between ourselves and Chesapeake.

The gas resources are found at depths between 3,000 and 9,000 feet. We are talking about high quality dry gas, and this will be produced by applying horizontal wells drilled from a set of well pads. The horizontal reach of these wells will be between 2,000 and 4,000 feet. In terms of looking at the time it takes to drill one of these wells, it takes about 30 days, and typically about 75% of the total volume is produced during the first two years and then the production falls off to extend a number of years; in some cases as much as 60 years.

Next, please. When it comes to the HSE, something which of course is important for our company, the environmental impact of this activity is limited. It is of course a matter of managing land and reducing the imprint in the landscape. And this is of course minimized through the use of well pads and extended reach wells. There is an issue related to water management; an issue in the sense that if there should be a concern with either one that we feel that this is very well taken care of and that there is upside in terms of looking at ways of in the future also depositing the water in deep wells. Greenhouse gas emissions is something which is very close to the Norwegian heart. This is not an issue in this case.

So what we feel is that we have entered into an agreement with Chesapeake that carries a lot of value and a lot of opportunity. It fits perfectly with our gas strategy. It establishes a new growth platform for our company. We are doing this together with a company which is reputed as being one of the leading shale players in the United States and we have the possibility of working together with them also identifying, accessing and executing on international opportunities. So we feel this is a very interesting agreement for StatoilHydro which carries a lot of prospects for the future.

---

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Thank you very much, Peter. That was the presentation. We will now open for questions. And as I said in the beginning there are two ways of asking questions to Peter Mellbye and our CFO, Eldar Saetre, either you send it via the Internet by pressing submit question button or you send, you ask the question directly over the telephone. And John, the operator, could we please have the instructions as to how to pose questions via the telephone?

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Mr. Sorensen, before we take questions I'll hand it back to you.

---

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Thank you very much. I've got one question from the Internet here, Neil McMahon from Sanford Bernstein.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

The acquisition price per acre seems very high as the acres in the core area were selling at \$2,000 per acre and have been falling recently, including the extra cost of carry you paid over \$3,600 per acre and you are buying from a distressed seller.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, you know, we have looked of course at deals that have been made in similar place over the past few months as one indicator. The other is we also looked very carefully at the value that we see can be created through this deal; looking at the potential of the wells as we estimate them looking at the data, more than 100 wells I think is about 350, that has been drilled in this area. And also the lateral wells that have been drilled and we feel comfortable with relationship between what we are paying and the value that can be created through this deal. So we feel by actual fact that it compares favorably with other deals that have been made. And we feel that there is a lot of value in this deal for ourselves and hopefully also a lot of value in it for Chesapeake.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Thank you, John. Can we take a telephone question, please?

**Operator**

Joe Allman, JPMorgan.

**Joe Allman** - JPMorgan - Analyst

Could you tell me what the required level of drilling is by Chesapeake based on your agreement and what your plans are for ramping up the activity?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, the idea here is that they will be ramping up and having all together 40 wells in activity by 2012.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

40 rigs.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

40 rigs in activity by 2012 and of course also through the carry arrangement this is structured the way that these wells have to be delivered within a certain timeframe for the carry actually to work out and deliver the amounts of money that we have specified. So in terms of rig availability and well programs we feel that we have a deal which is well structured to execute the programs required to meet the production numbers that we have been looking at and are the basis for our economic calculation.

**Joe Allman** - JPMorgan - Analyst

And what natural gas price did you use to justify the economics?

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, you know, what we have been looking very carefully at is what our sort of breakeven costs for this deal. And then we have been looking at the forward curves and what I would say is that this deal delivers very satisfactory economics at prices well below what we presently can see in the forward curve.

**Joe Allman** - JPMorgan - Analyst

Okay, great. And what data out of the Marcellus made you particularly interested in getting involved pretty heavily in this play?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, you know, we have been looking at the well logs of a very high number of wells that have been drilled in this area and which is sort of establishes the structures that are carrying the gas quantities. We've looked at the horizontal wells and the results from those and we have looked at the productivity in those wells; and these things combined have convinced us this is a very interesting place to get involved in.

**Joe Allman** - JPMorgan - Analyst

Thank you. Very helpful.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

We will take a question from the Internet. It is from Mark Smedley from Energy Intelligence. You say that this is a strategic agreement to jointly explore unconventional gas opportunities worldwide. Where outside the US do you mean?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, I mean we've said that this is an agreement to cooperate globally and we actually mean globally and we will have to look at this very carefully, but known to everybody from a geological perspective there are great amount of and great opportunities in terms of unconventional gas in China. You have Ukraine, you have Poland, you have Romania. There are these kinds of deposits to be found in a number of geographies and the next stage for us is now to look carefully at where the opportunities sits and which ones we wanted to pursue. We have for instance also, we are involved in Algeria and there are lots of unconventional opportunities in that country. This is something for the next stage.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

All right, can we take a question from the telephone, please.

**Operator**

David Heikkinen, Tudor Pickering.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**David Heikkinen** - *Tudor Pickering - Analyst*

Check some math, when you think about your drilling carry that is about 800 growth wells that will be drilled between 2009 and 2012. Is that about what you are expecting?

**Peter Mellbye** - *StatoilHydro ASA - EVP, Int'l Exploration & Production*

800 wells?

**Lars Sorensen** - *StatoilHydro ASA - Head, IR*

It is probably in that ballpark, yes.

**David Heikkinen** - *Tudor Pickering - Analyst*

Okay, and as you think about beyond 2012, do you think 40 rigs is about the maximum that the joint venture is going to be able to operate, or is that just kind of a ballpark number at this point?

**Peter Mellbye** - *StatoilHydro ASA - EVP, Int'l Exploration & Production*

The target is 50 actually, so that the 40 is what we can do up to 2012.

**David Heikkinen** - *Tudor Pickering - Analyst*

So you will ramp to 50 rigs, kind of longer term to get to the 200,000 barrels equivalent. And those production volumes, were those net to Statoil?

**Peter Mellbye** - *StatoilHydro ASA - EVP, Int'l Exploration & Production*

The production will enter 200,000 that I mentioned; that is net to StatoilHydro, yes.

**David Heikkinen** - *Tudor Pickering - Analyst*

Perfect. That's great. Looking at where the acreage is located, know that Chesapeake has acreage in New York, Pennsylvania and West Virginia. Is there any thoughts about where the core is going to be for the first phase of development?

**Peter Mellbye** - *StatoilHydro ASA - EVP, Int'l Exploration & Production*

In terms of the core area, as you can see sort of on the map that is provided in our presentation where the sort of yellow parts are really the parts that we are in, and it is sort of the outmost northern part and it is the southern part which is clearly the core area.

**Lars Sorensen** - *StatoilHydro ASA - Head, IR*

If you go to page one in the presentation there are three pictures and the middle one actually shows the leases.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

And you see the green, the yellow area on the top of the borderline between Pennsylvania and New York City; there is New York State you see the yellow area there and you see it down in the south, in West Virginia.

**David Heikkinen** - Tudor Pickering - Analyst

What percentage of acreage is that out of the total 1.8 million acres is in that core?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

About 50% to 60% is in that core.

**David Heikkinen** - Tudor Pickering - Analyst

Thank you. That was it. I appreciate it.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

We'll take a question from the Internet. It is from Fidelity. How comparable is the deal with recent Antero Dominion transactions of 114,000 acres at \$3,037 per acre rate? I mean, is it rich acres or any technical color?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Do you know about Antero?

**Unidentified Company Representative**

I do not know the related details of that deal so I find it a bit difficult to sort of comment on that comparison with something I don't really know.

**Operator**

Iain Reid, Macquarie.

**Iain Reid** - Macquarie Securities - Analyst

Hi, Peter. Three quick questions and then one on strategy. Firstly, are you going to hedge the gas price on this? I think you've done that in previous US transactions. And secondly did I hear you right when you said all the individual well volumes, 75% is produced in the first two years. And thirdly, in terms of CapEx you give a CapEx per well number; is that kind of a built-up number to include kind of processing and transportation equipment, as well. And fourthly on strategy, I noticed you mentioned coal bed methane which has obviously been in the news recently. Is this also a key part of what you are looking at, and is that in the US or in places such as Southeast Asia?



Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

I could the question on the hedging. As you know, we have pretty much considered oil and gas to be a core risk for this company so at least for the time being there are no plans for us to hedge any of these volumes.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Then your next question was related to the 75%. You know, that is sort of the typical production profile of each individual well is that you would normally produce about 75% of the total volume in the first two years. That is sort of an average configuration. And then your \$3.5 million per well that is the actual cost of drilling the well so it is not sort of implying any sort of capitalization or including any capitalization of transportation charges and stuff like that. And when it comes to coal bed methane that is something we've only looked at very sort of in a passing way at this point.

**Iain Reid** - Macquarie Securities - Analyst

Just one question on the CapEx again. If you did include the rest of CapEx what would the built-up cost per well be then you think?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

If you include sort of the transportation and processing, you will probably have to add another \$5.

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

If you look at this from a CapEx perspective, upstream CapEx, you are talking about \$6 to \$7 per barrel; if you add OpEx you are talking about \$4.5 to \$5. And if you add sort of the transportation processing to this you would add \$6 to \$7.

**Iain Reid** - Macquarie Securities - Analyst

So \$6 or \$7 OpEx including transportation?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

It is cash upstream costs, OpEx is between \$4 and \$5. And if you add transportation add on top of that that would add approximately \$6 to \$7 per barrel to take you through the market.

**Iain Reid** - Macquarie Securities - Analyst

Okay, Eldar. Thanks a lot.

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

But then I should remind you that this is in terms of location to the market, this is a very competitive location compared to alternatives.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

I'll take a question from the Internet from Jason Kenney, ING. BP has mentioned in its July press release concerning a deal with Chesapeake that it was negotiating to get into the Marcellus play. Does your deal rule them out now? Do you have exclusivity with Chesapeake into this acreage?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, you know, the deal is structured such that it is possible also to include other partners, but there are certain limitations applying to that.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Can we have a question from the telephone, please, John?

**Operator**

Neil McMahon, Sanford Bernstein.

**Neil McMahon** - Sanford Bernstein - Analyst

I've got a few questions. First is really in terms of the volumes, recoverable volumes you've got per well; you are estimating 3.1 Bcf per well. Whereas far as we know on the Marcellus even to get a value of a total recoverable reserves in the range of 3 Bcf would be seen as pretty aggressive. Can you tell us how you've worked through to come up with such a high recoverable reserve number per well? And I've got a follow-up, as well, please.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

What we have done, as I said, we have looked at well data from a number of wells that have been drilled in this area, then we have looked at the horizontal wells that have been drilled, and we have looked at the abnormalities of these different wells, and then we have based on that made a judgment ourselves that 3.1 is a reasonable number in view of all the data that is available to us.

**Neil McMahon** - Sanford Bernstein - Analyst

Maybe you could tell us, because I am frankly very confused as where you got the data from, what some of the highest well recoverable volume estimates you were coming up with for some of the wells because I'm struggling to get anywhere close to a 3.1 level.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, what we have looked at, we have looked at the well data that has been available from, is it 350 wells in total, and then the ones that are directly related to this, the horizontal wells that have been drilled by Chesapeake. And looking at those average numbers also taking into account the specific technical problems encountered in some cases, and we have arrived at this as a reasonable number.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Neil McMahon** - Sanford Bernstein - Analyst

Maybe just a final question then, given the state of Chesapeake's balance sheet and some of the issues that have gone through with trying to adjust their CapEx going forward; what have you done to look at the risks associated with Chesapeake to see if there are going to be able to afford to pay for their component of the CapEx going forward? I noticed you had some caveats in there to say if they don't come up with drilling the volume of wells that you were expecting you can change the carry. Maybe if you can sort of go into that, please.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

What we have done is that we have obviously done a careful analysis of Chesapeake's situation, economically and of course these things are dynamic in the world we live in. But obvious assessment is that this is something they should be able to do and through the carry mechanism; the carry mechanism is structured so that such that they have a strong incentive to deliver on it. So that is not really a concern to us.

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

No, I just repeat that we have been through quite a thorough due diligence on the financials and we are comfortable with the deal from that perspective actually.

**Neil McMahon** - Sanford Bernstein - Analyst

Okay.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

I'll take a question from the Internet. It's a little bit about the ownership and the status of Chesapeake, actually. It is from Nitin Sharma at Cazenove.

Given the recent speculation about the takeover of Chesapeake, please explain the implications of any such potential takeover on the agreement announced today.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

In the agreement we have based ourselves on Chesapeake being our partner, and we have introduced in the agreement closest to protect our interest, also in the case of a potential takeover. So I think through the agreement that we are well protected also in that case.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

A question from the phone please.

**Operator**

Robert Kessler, Simmons & Co.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Robert Kessler** - *Simmons & Co. - Analyst*

I saw your figure on the total recoverable resources, this 2.5 to 3 billion barrels oil equivalent. I would like to see if you could talk about translating those into proven reserves. Do you expect to book any proven reserves by year end this year? And if you could give some progression on when those resources will be transferred into the reserve category.

**Eldar Saetre** - *StatoilHydro ASA - CFO, EVP*

I could comment on that. The rules for booking reserves is more on the complex side I would say, but basically fundamentally what you have to do to book reserves in this context is to drill the wells. So you have to drill the wells and then you have a circle around the wells where you can sort of add volumes to it. But that is basically what you have. So you will see this being booked more or less in line with the commitments and the drilling of the wells. Then SEC is in the process of considering adjustments to the booking regulations and that could be in place by 2010. And so to the extent that is sort of could impact on these kind of resources; I don't know, but it could have.

**Robert Kessler** - *Simmons & Co. - Analyst*

Okay, and are there any conventional reserves in the same acreage area or is this strictly shale gas?

**Peter Mellbye** - *StatoilHydro ASA - EVP, Int'l Exploration & Production*

Well, what we are targeting is shale gas, but we do have rights extending sort of beyond this exact structure.

**Robert Kessler** - *Simmons & Co. - Analyst*

Any kind of resource figure around the conventional, or outside?

**Peter Mellbye** - *StatoilHydro ASA - EVP, Int'l Exploration & Production*

No, because I mean, whether there are sort of deeper structures and opportunities there, that has not played an important part in our consideration in this case.

**Robert Kessler** - *Simmons & Co. - Analyst*

Sure. Thanks very much.

**Lars Sorensen** - *StatoilHydro ASA - Head, IR*

I'll take a question from the Internet from Fidelity again.

Just to confirm the payment schedule for 2009, 2012 once again, did you say \$800 million to \$900 million approximately a year depending on expenditure?

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

This will be based on the drilling profile, basically, and we have talked about the number of wells and the growth and the number of rigs. So we will pay \$1250 at the time of the closing. And then there will be sort of a payment according to the drilling schedule and obviously we will drill more wells closer to 2012 than at the beginning of this period.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

And actually we estimate the cost of each well to be \$3.5 million on average.

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

That's right.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Do your math, basically. Could we have a question from the telephone please?

**Operator**

Barry MacCarthy, RBS.

**Barry MacCarthy** - Royal Bank of Scotland - Analyst

Just a clarification please on the CapEx per well. Does that include the fracturing of the well in preparation of the well for production in addition to the drilling of the well? Then on the gas volumes that you hope to produce, what is the current infrastructure for exporting gas to market? And at what point could there be a bottleneck in terms of transporting gas which you could produce to markets? Thank you.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

On the first part of the question the answer is yes, it does. On the second part of the question there is of course a need to establish the gathering infrastructure to bring it to the transmission lines. And on the last question of capacity constraints, we don't see any capacity constraints on that part of the system.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Another question from the Internet from Gudmund Isfeldt, DnB NOR.

Why did you not acquire Chesapeake Energy altogether? Was this considered?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

I think the attraction of Chesapeake as a partner is Chesapeake as an operating organization, with the capabilities that they have, they are good at doing their wells. They are good at developing these areas. They are good at putting together the acreage deals that forms the foundation here, so we felt that a partnership for us where we are is the thing that we want. So we did not really seriously consider buying Chesapeake as a company.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

We will just take one more question from the Internet. It is from Kim Fustier, JPMorgan.

Can you give more details on current production volumes in the Marcellus and on the ramp up profile, please?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

Currently there are six wells producing around 3,000 barrels per day, 100%; so we would have our share of that. So this will be ramping up to a level of -- we indicated more than 50,000 barrels per day on our hand on the StatoilHydro equity by 2012. And as I commented on this will be based on the drilling program and there will be added continuously new rig capacity to drill wells. But in terms of absolute numbers you will obviously see more additions to the production profile as you get towards the 2012.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

All right, can we take a question from the phone please John?

**Operator**

Jon Rigby, UBS.

**Jon Rigby** - UBS - Analyst

Thank you. Two questions. The first is on the estimated recoverable resources number that you quote. Can you make any comments around the risking that you have applied to come up with that number because it looks very close to the last number I saw on a net basis of the total unrisks recoverable reserves. And the second is can you just confirm on the transportation costs, you are assuming a new high pressure, sort of infield transportation system. Would that be correct?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

What we have done in terms of risking is that we have looked at sort of the total acreage that we are getting into, and we have sort of identified the parts that we think are the interesting parts, which may be about 63% of the total acreage. And then what we've done is as I said previously we've looked at well data from these 300 some, and then the six plus 20, that is the six wells that Chesapeake has been drilling plus 20 other wells. And we have established a number per well which we feel is realistic given the continuity and character of the structure. So that is the way we have evaluated. So we've done risking you can say at two levels in this case.

**Jon Rigby** - UBS - Analyst

Okay, I see.

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

And you have another question?

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Jon Rigby** - UBS - Analyst

Yes, just about the transportation, I guess infield; is that assuming I guess a brand-new, high-pressure transmission load system within the fields?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

No, what we look at is that you have to develop the local systems to tie into the high-pressure system, but you don't really assume that there is going to be built another large transmission line through the area.

**Jon Rigby** - UBS - Analyst

Right; and in terms of gas collection as I understand it most of the infrastructure is built around an existing coal bed methane production. Is that compatible with what you would be producing from the deeper wells?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

No, it is not really compatible with that. So what we are doing is we are assuming that we will have to fit in a bit of pipeline ourselves, and part of the agreement is that the investments in the midstream we will be participating together with Chesapeake on the same proportion as we are investing in the wells.

**Jon Rigby** - UBS - Analyst

Okay, thank you.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

I'll take a question from the Internet. It is from Marius Gaard, Carnegie.

What is the average duration of the leases, and how much of the 1.8 million leased acres expires within the next one to two years unless it is drilled?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

I think in terms of the length of the leases as long as you have drilled wells then you are keeping the lease as long as you pay for it. So I think that is the answer to the first one. The second one I didn't get.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

How much of the 1.8 million leases of acreage expire within the next one to two years unless it is drilled?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

That is basically the same answer.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

A follow-up question here. Do you have capacity, i.e. rig and people to drill and develop the acreage during the lease period?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Yes.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Yes. Good, so we will take a question from the phone please John.

**Operator**

Jason Kenney, ING.

**Jason Kenney** - ING - Analyst

Hi there; I just wanted some clarity on the 50,000 barrels a day by 2012. Is that just pure equity volume or does it include the carry volumes that you would be getting from your 87% here?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

That is our equity volumes, and that is what we will get access to. So the carry, that is just the CapEx as opposed to paying for the deal as such, so we don't get volumes for that. But we will get our equity volumes of 32%.

**Jason Kenney** - ING - Analyst

Fair enough.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Another question from the phone please, John.

**Operator**

Neill Morton, MF Global.

**Neill Morton** - MF Global - Analyst

I appreciate that Chesapeake had some fairly severe financing issues of late, but could you perhaps say what the plan ramp up in terms of rigs is over and above their existing plans? The reason I ask is that they had been talking about 20,000 or so barrels of oil equivalent by end 2010, which is 7,000 net of Statoil. And you are talking about 50,000 by 2012 which seems an awfully ambitious target based on Chesapeake's plans. Thank you.



Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Well, you know one thing is that they have presented plans to the market which could not possibly discount this deal and of course this deal is going to have some impact on their ability. And through the deal we have established mechanisms for them to have sufficient economic incentive to execute on the programs. And these programs are now part of the programs of Chesapeake. So this is now firmly embedded in their plans. But it was of course difficult for them to talk about this prior to the deal being made because that deal changes also their capacity to execute.

**Neill Morton** - MF Global - Analyst

Just as a follow-up, in terms of LNG, you discussed at the gas seminar last week your longer-term plans, but you have to know that your expanding Cove Point, but one of the issues as to why LNG volumes in the Atlantic basin have been transferred to Asia is that firstly US demand has fallen away, but the increasing supply of un conventionals has obviated the need for LNG imports. To what extent is getting into gas shale basically competing internally with your other sources of gas supply?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

I think whatever you do in this game I think it is interesting to establish positions in different ends of the chain, so obviously there is some competition between internal production in the US and imports, but that will then be reflected in the price and where the LNG goes. It is going to be a question of the US price relative to prices in other areas. So we feel this is really quite a natural thing to do given the fact that we have an interest to develop a position in the US market.

**Neill Morton** - MF Global - Analyst

Just to clarify finally that 50,000 net to Statoil in 2012, is that an average or a year end rate?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

That is an average and it is at least 50,000; that is an average for the full year.

**Iain Reid** - Macquarie Securities - Analyst

Great. Thank you.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Let me take a question from the Internet. It is from Marius Gaard, Carnegie.

Why does the value per acre vary?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Value per acre varies some, we have an average price in this, and of course in looking at it and sort of putting value at the different parts you have to reflect the productivity and the value of that area. And even in this relatively homogenous areas there are variations in terms of thickness and prosperity of the prospective areas.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Can I take a question from the phone John?

---

**Operator**

At this time we have no further questions.

---

**Lars Sorensen** - StatoilHydro ASA - Head, IR

I've got one question from Fidelity. What IRR rate do you use for this project to be economic, or rather, what natural gas price range a range would break even?

---

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

I think when it comes to the IRR rate we don't have to disclose that. That depends a little bit on type of project and so on, but we are required a rate of return which is significantly above our cost of capital to put it that way. When it comes to the breakeven prices we have commented on that. It is typically a breakeven price which is significantly below the current forward prices. So we are very comfortable with this deal and feel that these resources are highly competitive compared to the alternative sources of new gas into this.

---

**Lars Sorensen** - StatoilHydro ASA - Head, IR

I'll take another question from the Internet. It is from Marius Gaard, Carnegie.

Would you through this deal have access to deeper formations, such as Utica and Herkimer?

---

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

Yes.

---

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Clear and short answer. Have you got any more questions on the phones, John?

---

**Operator**

Joe Allman, JPMorgan.

---

**Joe Allman** - JPMorgan - Analyst

Could you discuss any specific capital commitments related to the search for some more gas resource internationally?

---

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

No.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Joe Allman** - JPMorgan - Analyst

Are you saying that there are no capital commitments or?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

No, what I am saying is that when we are talking about the global cooperation and I suppose that is sort of what you are referring to with Chesapeake; I mean we will now have to spend a little time working together to sort of screen and evaluate opportunities as we see them. And then we have to take them through our normal processes and then at some point they might convert into investment opportunities. But to start talking about numbers in that context I feel is much too early, unfortunately.

**Joe Allman** - JPMorgan - Analyst

Okay, great. And back to the Marcellus Shale, in terms of the infrastructure spending, how much CapEx do you think you will need to spend for additional pipeline and infrastructure in 2009 and 2010 and beyond?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

We have a right and possibility to participate in those investments, and we really have to look at it and then we will make up our mind whether we will invest or whether we will pay tariffs to use the infrastructure.

**Joe Allman** - JPMorgan - Analyst

What is Statoil's role going to be in terms of the operations? We know that Chesapeake is going to be operating the properties, but will Statoil have a technical part to play in the development of the Marcellus?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

We will second people into the Chesapeake organization, but Chesapeake will be the operator of this and their procedures and ways of working will be applied. So we will not play a role as an operator in this.

**Joe Allman** - JPMorgan - Analyst

Lastly, you obviously are talking about some pretty meaningful natural gas volumes coming on line. Just to put that in context with the ramp up of other gas resource plays in the US, what are your thoughts about the possibility of an oversupply of natural gas in the United States over the near and medium term?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

The charm of this thing is that you are making decisions as to go in terms of the wells that you are drilling and you will of course have to have a keen eye also on the way the market develops. So we feel that there is a lot more optionality in this way of proceeding than the classical way of putting down the \$5 billion in one big chunk and then producing as hard as you can.

**Joe Allman** - JPMorgan - Analyst

I see, great. Thank you very much. Very helpful.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

I don't have any more questions from the Internet. You have anymore on the phone, John please?

**Operator**

[Carl Brown, Rivers Partners]

**Carl Brown** - Rivers Partners - Analyst

I'm trying to get through a couple of numbers that were mentioned earlier on the call. If it is, if you think you can drill 800 wells during this time period '09 through 2012, if I do the math on that, 800 wells times 3.5 million per well, I get to \$2.8 billion. And then if I take 75% of Chesapeake, 66%, that is about roughly 50%, so I'm coming up with \$1.4 billion versus the \$2.125 billion. And I'm just wondering is that 800 wells the right number or if I do the math the other way I come up with really needing to drill about 1200 wells during that time period for their carry to work out to the \$2.1 billion number.

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

I think when we got the specific question on 800 we were a little bit uncertain; we felt it was in that range but we didn't have that exact number. So I think what you should look at on our hand is the CapEx of approximately \$6 billion in the period from now until 2012, including 2012. So that is the CapEx spend that we are looking at given the current program.

**Carl Brown** - Rivers Partners - Analyst

Okay and I apologize, I missed earlier the comments about how the structure of the carry can change if the pace isn't what was expected. How does that actually work? If the pace of drilling is slower than expected, does your commitment of the up to \$2.1 billion come down, or does your interest in the wells that are drilled go up?

**Peter Mellbye** - StatoilHydro ASA - EVP, Int'l Exploration & Production

No, the carry mechanism is fixed through an amount through a period of time and through the percentage. So there is no mechanism to sort of automatically extend the carry period; if the well program is (technical difficulty) might in terms of changed circumstance change. But basically it is sort of earn it or lose it mechanism defined by a period of time.

**Carl Brown** - Rivers Partners - Analyst

Okay, and if I do the math to come up with the \$6 billion CapEx program and try to match that with your comment of getting to 40 rigs by 2012, are you anticipating that 40 rig to be an exiting rate during 2012 or a starting point for 2012?

**Eldar Saetre** - StatoilHydro ASA - CFO, EVP

Well, the 40 for 2012 is more like an average for that year.

**Carl Brown** - Rivers Partners - Analyst

Okay. Thanks very much.

Nov. 11. 2008 / 8:00AM, STO - StatoilHydro ASA & Chesapeake Energy Corporation Strategic Alliance Conference Call

**Lars Sorensen** - StatoilHydro ASA - Head, IR

Do you have more questions from the phone, please?

**Operator**

At this time we have no further questions.

**Lars Sorensen** - StatoilHydro ASA - Head, IR

And I have no further questions on the Internet. So it is just left for me to say thank you very much for your participation and goodbye.

**Operator**

Ladies and gentlemen, that will conclude today's conference call. I thank you for your participation. Have a nice day.

#### DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.