Press release

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2014 SECOND QUARTER RESULTS

Statoil’s second quarter 2014 operating and financial review

Statoil's second quarter 2014 net operating income was NOK 32.0 billion, a decrease of NOK 2.3 billion compared to the second quarter of 2013. Adjusted earnings were NOK 32.3 billion.

“Statoil delivered solid operational performance in the quarter, with continued high production regularity on the Norwegian continental shelf and project execution according to plan. We have deferred gas production to enhance value, but remain on track for delivering on our production guiding for 2014. Our quarterly earnings were impacted by divestments, seasonal effects and lower gas prices. For the first half of the year, earnings were around the same level as in the same period last year," says Helge Lund, Statoil's president and CEO.

Statoil’s net income for the second quarter was NOK 12.0 billion, an increase from NOK 4.3 billion in the same period of 2013. Earnings per share were NOK 3.75, an increase from NOK 1.38.

Adjusted earnings were NOK 32.3 billion, a 15% decrease compared to the second quarter last year. The net adjustments of NOK 0.3 billion are primarily related to gains and impairments. In the second quarter, the company recorded a gain of NOK 3.6 billion from the farm-down in Shah Deniz and the South Caucasus Pipeline. The gain was offset by impairments of NOK 4.3 billion in the US onshore business, mainly related to sustained local price differentials. Adjusted earnings after tax were NOK 9.9 billion, compared to NOK 11.3 billion in the same period last year.

"Our cash flow from operations before tax is NOK 118 billion so far this year, and we have a strong balance sheet. We will pay a dividend of NOK 1.80 per share for the quarter, in line with our commitment to capital distribution to our shareholders,” says Lund.

Net debt to capital employed at the end of the quarter was 16%. Organic capital expenditure is USD 10 billion year-to-date, and the guidance of USD 20 billion for 2014-2016 remains unchanged.

Statoil’s adjusted earnings from upstream activities in Norway decreased from NOK 31.5 billion to NOK 24.1 billion. Earnings from upstream activities outside Norway increased to NOK 6.3 billion from NOK 5.9 billion, while earnings from the midstream increased to NOK 2.4 billion from NOK 0.8 billion.

In the quarter, Statoil made the high-impact Piri discovery in Tanzania. The discovery brings the total of gas in-place in Block 2 up to approximately 20 tcf, adding volumes for a future large-scale gas infrastructure development. Exploration expenses were NOK 2.7 billion, down NOK 1.4 billion compared to same quarter last year. The decreased expenses were mainly due to increased capitalisation as a result of successful wells.

“We continue progressing our programmes to reduce cost and improve capital efficiency. In the quarter, we have announced a potential to reduce between 1100 and 1400 positions. Reductions of around 1000 positions in our staffs and support services are already implemented. We have also established six specific high-impact projects addressing technical efficiency across the company, and we are now executing the first wave. We are on track, and will provide an updated status when we report our results for the full year,” says Lund.

Statoil delivered production of 1,799 mboe per day in the second quarter, down 9% compared to second quarter in 2013. Starting and ramping up of new fields such as Skarv in Norway, Marcellus and Eagle Ford in the United States together with PSVM and CLOV in Angola contributed positively to the production. This increase was partly offset by divestments and redetermination, expected natural decline, seasonal effects and optimisation of gas production.

Statoil continued its strong progress on project development and execution, including the award of a letter of intent for two steel jackets to the Johan Sverdrup field. This represents a new step forward in planning of the first phase of this important development on the Norwegian continental shelf.

The serious incident frequency (SIF) improved from 0.9 in the second quarter of 2013 to 0.7 in the second quarter of 2014.

Second quarter 2014	2013	change		First half 2014	2013	change	Full year 2013
32.0	34.3	(7%)	IFRS Net operating income (NOK billion)	**83.4**	72.3	15%	155.5
32.3	38.0	(15%)	Adjusted earnings (NOK billion) [5]	**78.3**	80.4	(3%)	163.1
12.0	4.3	>100%	IFRS Net income (NOK billion)	**35.7**	10.8	>100%	39.2
1,799	1,967	(9%)	Total equity liquids and gas production (mboe per day) [4]	**1,888**	1,982	(5%)	1,940
596.7	547.3	9%	Group average liquids price (NOK/bbl) [1]	**600.0**	564.0	6%	588.1

Key events since first quarter 2014:

- The CLOV deepwater development came on stream in Angola in line with the initial project schedule.
- The Johan Sverdrup development: New steps taken by awarding letters of intent for two steel jackets.
- Statoil made the high-impact Piri discovery offshore Tanzania, the world’s largest gas discovery in 2014 year-to-date.
- Statoil and PTTEP completed the agreement to divide Canadian oil sands interests.
- The farm downs in Shah Deniz and South Caucasus Pipeline were completed.
- Statoil opened its new research centre for improved oil recovery at Rotvoll in Trondheim, Norway.
- Portfolio adjustments in Angola blocks 15/06, 38 and 39.
- Statoil and Statkraft made an investment decision on the Dudgeon Offshore Wind Farm in the UK.

SECOND QUARTER 2014 GROUP REVIEW

The second quarter results were impacted by lower production caused by divestments and seasonal effects, in addition to lower gas prices. The operational performance was solid.

Total equity liquids and gas production [4] was down 9% to 1,799 mboe per day in the second quarter. The decrease was primarily due to reduced ownership share from divestments and redetermination, expected natural decline on mature fields, lower gas off-take and higher maintenance activity on the Norwegian continental shelf (NCS). Start-up and ramp-up of production on various fields partly offset the decrease.

Total entitlement liquids and gas production [3] was down 7% to 1,588 mboe per day, impacted by the decrease in equity production as described above, partly offset by a lower effect from production sharing agreements (PSA). The PSA-effect was 169 mboe per day compared to 182 mboe per day in the second quarter of 2013.

Net operating income (IFRS) was NOK 32.0 billion in the second quarter, a decrease of 7% compared to the second quarter of 2013.

Adjusted earnings [5] were NOK 32.3 billion in the second quarter, down 15% compared to the second quarter of 2013 mainly due to the decrease in production of both liquids and gas. Lower gas prices measured in NOK together with increased depreciation mainly due to new investments and production start-up and ramp-up added to the decrease. Also, increased royalty and transportation costs due to higher activity reduced adjusted earnings. Higher liquids prices measured in NOK and increased capitalisation of exploration expenditures partly offset the decrease.

Second quarter			Adjusted earnings		First half		Full year
2014	2013 (restated)	change	(in NOK billion)	2014	2013 (restated)	change	2013 (restated)
142.3	150.0	(5%)	Adjusted total revenues and other income	**311.9**	310.3	1%	629.6
(69.6)	(72.4)	(4%)	Adjusted purchases	**(152.9)**	(153.7)	(1%)	(307.5)
(20.6)	(19.2)	7%	Adjusted operating expenses and selling, general and administrative expenses	**(41.4)**	(37.9)	9%	(76.3)
(17.1)	(16.4)	5%	Adjusted depreciation, amortisation and net impairment losses	**(33.3)**	(31.1)	7%	(65.6)
(2.7)	(4.1)	(34%)	Adjusted exploration expenses	**(6.0)**	(7.1)	(16%)	(17.1)
32.3	38.0	(15%)	Adjusted earnings [5]	**78.3**	80.4	(3%)	163.1

Adjusted total revenues and other income were down 5% mainly because of lower volumes sold of both liquids and gas. Decreased gas prices added to the decrease. Higher liquids prices measured in NOK partly offset the reduction in revenues.

Adjusted purchases, which represent Statoil's purchase of SDFI liquid volumes [6] and other 3rd party volumes, were down by 4%.

Adjusted operating expenses and selling, general and administrative expenses increased by 7% to NOK 20.6 billion, mainly due to increased transportation and royalty costs. Increased pension costs and higher activity on various fields added to the increase, partly offset by lower ownership shares resulting from divestments and redetermination.

Adjusted depreciation, amortisation and net impairment losses increased by 5% to NOK 17.1 billion, mainly due to higher depreciation from ramp-up on various fields with higher depreciation cost per unit and new investments on major producing fields. The increase was partly offset by higher reserves estimates and lower production because of divestments, redetermination and decline on mature fields.

Adjusted exploration expenses were down NOK 1.4 billion to NOK 2.7 billion, mainly due to increased portion of current exploration expenditures being capitalised this quarter because of successful wells and a higher Statoil share in wells drilled. Reduced seismic and field development costs added to the decrease. A higher portion of exploration expenditures capitalised in previous periods being expensed this quarter partly offset the decrease.

Net adjusted financial items before tax amounted to an expense of NOK 0.6 billion in the second quarter of 2014 compared to an expense of NOK 0.2 billion in the second quarter of 2013. The increased expense was mainly due to the higher level of long term debt compared to the second quarter of 2013.

Adjusted earnings after tax were NOK 9.9 billion, which reflects an effective tax rate on adjusted earnings of 69.3%, compared to an effective tax rate on adjusted earnings of 70.3% in the second quarter of 2013. The tax rate decreased mainly due to relatively lower adjusted earnings from the NCS in the second quarter of 2014. Income from the NCS is subject to higher than average tax rates.

Cash flows provided by operating activities were NOK 18.1 billion, an increase of NOK 9.9 billion compared to the second quarter of 2013. Lower taxes paid were the main contributors to the increase.

Cash flows used in investing activities were NOK 50.5 billion, an increase of NOK 31.0 billion compared to the second quarter of 2013 mainly due to an increase of deposits with more than three months maturity of NOK 34.1 billion. Investment in property, plant and equipment and intangible assets amounted to NOK 32.7 billion. Proceeds from sale of assets of NOK 5.8 billion in the second quarter of 2014 was mainly related to the divestment of a 6.7% share in the Shah Deniz field.

Cash flows provided by (used in) financing activities were NOK 24.1 billion, an increase of NOK 17.3 billion compared to the second quarter of 2013. The change was primarily caused by a 2013 debt issuance of NOK 17.3 billion.

For further information, see *the Consolidated statement of cash flows* to the Condensed interim financial statements.

First half 2014

Adjusted earnings [5] were NOK 78.3 billion in the first half of 2014. The 3% decrease compared to the first half of 2013 was mainly due to decreased volumes of liquids and gas sold. Increased depreciation expenses because of higher investments and production start-up and ramp-up on various fields added to the decrease. Also, increased transportation and operating plant costs reduced adjusted earnings.

Higher prices for liquids and a stronger contribution from US gas sales deriving from higher prices, partly offset the decrease. Also, the 16% reduction in exploration expenses mainly due to a higher portion of current expenditures being capitalised and lower seismic and field development expenditures had an offsetting effect on the decrease in adjusted earnings in the first half of 2014 compared to the same period last year.

OUTLOOK

- **Organic capital expenditures** for 2014 (i.e. excluding acquisitions, capital leases and other investments with significant different cash flow pattern), are estimated at around USD 20 billion.
- Statoil will continue to mature the large portfolio of exploration assets and expects to complete around 50 wells in 2014 with a total **exploration activity** level at around USD 3.5 billion, excluding signature bonuses.
- Statoil focuses on value creation, and **RoACE** (Return on Average Capital Employed) is expected to stabilise at the 2013 level, based on an oil price of USD 100 per barrel (real 2013).
- Our ambition is to keep our **unit of production cost** in the top quartile of our peer group.
- For the period 2013 - 2016 **organic production growth** is expected to come from new projects resulting in around 3% CAGR (Compound Annual Growth Rate) from a 2013 level rebased for divestments and redeterminations [7].
- The **equity production development** for 2014 is estimated to be around 2% CAGR from a 2013 level rebased for divestments and redetermination.
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 60 mboe per day in the third quarter of 2014, of which the majority on the NCS, around half in liquids. In total, the maintenance is estimated to reduce equity production by around 50 mboe per day for the full year 2014, of which the majority is liquids.
- **Indicative PSA (Production Sharing Agreement) effect and US royalties** are estimated to around 200 mboe per day in 2014 based on an oil price of USD 110 per barrel.
- Deferral of gas production to create value, gas off-take, timing of new capacity coming on stream and operational regularity represent the most significant risks related to the production guidance.
- These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. For further information, see section *Forward-Looking Statements*.

References

To see end notes referenced in main table and text please download our complete report from our website - http://www.statoil.com/en/InvestorCentre/QuarterlyResults/Pages/default.aspx

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