Press release

29 October 2014

2014 THIRD QUARTER RESULTS

Statoil's third quarter 2014 operating and financial review

Statoil's third quarter 2014 net operating income was NOK 17.0 billion, a decrease from NOK 39.3 billion in the third quarter of 2013. Net income was negative NOK 4.8 billion mainly due to impairments. Adjusted earnings were NOK 30.9 billion, a decrease from NOK 40.4 billion in the third quarter of 2013.

"Statoil's quarterly earnings were negatively impacted by lower oil and gas prices and our decision to defer gas sales to enhance value. Our negative net income in accordance with IFRS relates to quarter-specific items. We delivered strong operational performance and cash generation in the quarter," says Eldar Sætre, Statoil's acting president and CEO.

"We are progressing well on our efficiency improvement program. We continued to produce with high regularity on the Norwegian continental shelf and execute our projects as planned, remaining on track for our 2014 production guiding," says Sætre.

Statoil's adjusted earnings were NOK 30.9 billion in the third quarter. The decrease from the third quarter of 2013 was mainly a result of lower oil and gas prices, reduced ownership share from divestments, higher depreciation due to investments in producing assets, new fields coming on stream and a larger share of oil in the production mix.

Statoil's reported net income for the third quarter in accordance with IFRS was negative NOK 4.8 billion due to quarter specific accounting charges of NOK 13.5 billion. These charges were mainly related to an impairment of the Kai Kos Dehseh asset in Canada, triggered by the postponement of the Corner field development, as well as impairments of exploration assets in the Gulf of Mexico and Angola. In line with practice to reflect the underlying performance, certain quarter-specific items are not included in the adjusted earnings.

"Our cash flow from operations so far this year is NOK 168 billion before tax. We have a strong balance sheet, and will pay a dividend of NOK 1.80 per share for the quarter," says Sætre. At the end of the quarter, Statoil's net debt to capital employed was 19%. Organic capital expenditure was around USD 15 billion year-to-date, and the guidance of around USD 20 billion for 2014 remains.

Statoil delivered production of 1,829 mboe per day in the third quarter. This is around the same level as in the third quarter of 2013, despite expected natural decline, reduced ownership share from divestments and lower gas off-take on the Norwegian continental shelf (NCS). High production efficiency, as well as start-up and ramp-up of production, contributed positively to the production. Production guidance for the year is re-iterated, despite a deliberate choice to produce less gas during the summer.

The board of directors appointed Eldar Sætre as acting president and CEO on 15 October. "Statoil's strategy remains firm. Safe and efficient operations are our top priorities, and we continue developing the business according to plan," says Sætre. Statoil's board of directors has established a sub-committee which has started the search for Statoil's next CEO.

Statoil made strong progress on project development and execution. The company started production on the two North Sea fast-track projects Fram H-North and Svalin C; successfully installed the Valemon platform in the North Sea; put a new compressor in operation on the Kvitebjørn field in the North Sea, to increase recovery by 220 mmboe; and started the Kristin low pressure production, yielding 160 additional mmboe.

Statoil also delivered on strategic portfolio management to realise value and strengthen flexibility. Statoil announced transactions of more than USD 3.5 billion in the quarter, including divestment of NCS assets and a sale of Shah Deniz in Azerbaijan. Since 2010, Statoil has announced more than USD 23 billion in proceeds from transactions and delivered around USD 12 billion in gains.

Also, in October Statoil continued its exploration progress, announcing its seventh natural gas discovery offshore Tanzania. This brings the total of in-place volumes up to approximately 21 tcf in block 2, adding gas volumes for a future large-scale gas infrastructure development. Statoil also recently proved new high-value oil resources of 30-80 mmboe in the Grane area in the North Sea.

The serious incident frequency (SIF) was 0.8 in the third quarter of 2014, unchanged from the third quarter 2013.

Third quarter 2014	Third quarter 2013	change		First nine months 2014	First nine months 2013	change	Full year 2013
17.0	39.3	(57%)	IFRS Net operating income (NOK billion)	**100.4**	111.6	(10%)	155.5
30.9	40.4	(24%)	Adjusted earnings (NOK billion) [5]	**109.2**	120.8	(10%)	163.1
(4.8)	13.7	>(100%)	IFRS Net income (NOK billion)	**30.9**	24.5	26%	39.2
1,829	1,852	(1%)	Total equity liquids and gas production (mboe per day) [4]	**1,868**	1,939	(4%)	1,940
569.5	616.6	(8%)	Group average liquids price (NOK/bbl) [1]	**590.1**	581.0	2%	588.1

Key events since second quarter 2014:

- On 15 October, Statoil's board of directors appointed Eldar Sætre as acting president and CEO, following the resignation of Helge Lund.
- Gudrun platform in North Sea officially opened, topsides installed on steel jacket on Valemon field.
- Production start on two North Sea fast-track projects: Fram H-North and Svalin C.
- Ordinary operations resumed at In Amenas in Algeria.
- Decision to postpone Corner field development at Kai Kos Dehseh oil sands project in Canada.
- Announced farm-down in Aasta Hansteen, Asterix and Polarled and exit from two NCS assets.
- Announced exit from Shah Deniz and South Caucasus Pipeline in Azerbaijan.
- New acreage awarded in Algeria, farm-in to acreage offshore Colombia, assessing opportunities in Nicaragua.
- Discovery of 1.2 trillion cubic feet of natural gas in Giligiliani-1 exploration well offshore Tanzania.
- New sanctions towards Russia relating to the situation in Ukraine have been imposed by Norway, the EU and the US, targeting i.a. certain oil exploration and production activities and Russian energy companies. We are currently reviewing the implications on our business and in particular with respect to our relationship with Rosneft.

THIRD QUARTER 2014 GROUP REVIEW

Operational performance in the quarter was solid. Results for the third quarter were impacted by reduced oil and gas prices and impairment losses.

Total equity liquids and gas production [4] was 1,829 mboe per day, at the same level as in third quarter of 2013 despite expected natural decline, reduced ownership shares from divestments and lower gas off-take on the Norwegian continental shelf (NCS). Start-up and ramp-up of production on various fields and lower maintenance activity partly offset the decrease.

Total entitlement liquids and gas production [3] was down 2% to 1,626 mboe per day, impacted by the decrease in equity production as described above and a lower negative effect from production sharing agreements (PSA effect).

Net operating income (IFRS) was NOK 17.0 billion in the third quarter, a decrease of 57% compared to the third quarter of 2013.

Net operating income in the third quarter 2014 was negatively affected by impairment losses of NOK 13.5 billion in total, mainly relating to the Kai Kos Dehseh oil sands project in Canada triggered by the postponement of the Corner field development and general weakening of market outlooks, impairment of midstream assets due to reduced expectations for future trading activities and impairment of exploration assets, mainly in Angola and in the Gulf of Mexico due to dry wells and uncommercial discoveries.

Net operating income in the third quarter of 2013 was negatively impacted by impairment losses of NOK 6.0 billion and provisions of NOK 4.3 billion mainly related to a redetermination process, while gain on sale of assets of NOK 6.4 billion, eliminations of NOK 1.7 billion and change in fair value of derivatives affected net operating income positively.

Adjusted earnings [5] were NOK 30.9 billion in the third quarter, down 24% compared to the third quarter of 2013 mainly due to lower prices for liquids and gas measured in NOK, reduced gas sales and increased depreciation and operating costs.

The increase in depreciation was mainly due to new investments, start-up and ramp-up of production and a larger share of oil in the production mix in order to optimise value creation. The increase in operating expenses and selling, general & administrative expenses was mainly due to increased gas transportation related to value chain optimisation and other one-off expenses. Lower exploration expenses due to reduced drilling and field development activities partly offset the decrease in adjusted earnings.

Third quarter 2014	Third quarter 2013 (restated)	change	Adjusted earnings (in NOK billion)	First nine months 2014	First nine months 2013 (restated)	change	Full year 2013 (restated)
146.6	164.5	(11%)	Adjusted total revenues and other income	**458.4**	474.8	(3%)	629.6
(72.6)	(83.0)	(12%)	Adjusted purchases [6]	**(225.5)**	(236.7)	(5%)	(307.5)
(20.5)	(18.7)	9%	Adjusted operating expenses and selling, general and administrative expenses	**(61.9)**	(56.6)	9%	(76.3)
(19.0)	(17.0)	12%	Adjusted depreciation, amortisation and net impairment losses	**(52.3)**	(48.1)	9%	(65.6)
(3.6)	(5.4)	(34%)	Adjusted exploration expenses	**(9.6)**	(12.6)	(24%)	(17.1)
30.9	40.4	(24%)	Adjusted earnings [5]	**109.2**	120.8	(10%)	163.1

Adjusted earnings after tax were NOK 9.1 billion, which reflects an effective tax rate on adjusted earnings of 70.6%, compared to an effective tax rate on adjusted earnings of 70.1% in the third quarter of 2013. The tax rate increased mainly due to relatively higher adjusted earnings from the NCS in the third quarter of 2014. Income from the NCS is subject to higher than average tax rates.

Cash flows provided by operating activities were NOK 26.1 billion, a decrease of NOK 14.1 billion compared to the third quarter of 2013, mainly due to changes in working capital items amounting to NOK 13.4 billion.

Cash flows used in investing activities were NOK 17.5 billion, a decrease of NOK 7.3 billion compared to the third quarter of 2013 mainly due to lower investments of NOK 16.1 billion in deposits with more than three months maturity. Investments in property, plant and equipment and intangible assets amounted to NOK 26.2 billion. Proceeds from sale of assets of NOK 2.5 billion in the third quarter of 2014 was mainly related to the divestments of working interests in Angola Block 15/06, Block 39 and in the Dudgeon offshore wind-farm.

Cash flows used in financing activities amounted to NOK 6.6 billion, and were mainly related to the payment of dividends in the third quarter 2014. The amounts reported in 2013 were impacted by a debt issuance of NOK 20.2 billion.

First nine months 2014

Net operating income was NOK 100.4 billion compared to NOK 111.6 billion in the first nine months of 2013.

Net operating income in the first nine months of 2014 was negatively affected by impairment losses of total NOK 18.0 billion (mainly the Kai Kos Dehseh oilsands project in Canada and US onshore assets and midstream assets) and losses on several exploration assets. Gain on sale of assets of NOK 6.5 billion (mainly ownership shares in the Shah Deniz project, the Angola assets and the Dudgeon offshore windfarm) and an award payment related to a commercial dispute of NOK 2.8 billion positively affected net operating income in the first nine months.

Net operating income in the first nine months of 2013 was negatively impacted mainly by impairments losses of NOK 6.0 billion, a provision related to a redetermination process of NOK 4.3 billion, and an onerous contract provision of NOK 4.9 billion, while gain on sale of assets of NOK 6.4 billion affected net operating income positively.

Adjusted earnings [5] were NOK 109.2 billion in the first nine months of 2014. The 10% decrease compared to the first nine months of 2013 was mainly due to decreased volumes of both liquids and gas, partly offset by higher prices.

Increased depreciation expenses mainly due to new investments and increased production from ramp-up and start-up on various fields, added to the decrease. Also, increased transportation, higher pension cost and other one-off expenses, reduced adjusted earnings in the first nine months of 2014. Adjusted exploration expenses were down 24% mainly due to lower drilling and seismic activity, reduced field development costs and a higher capitalisation rate.

Cash flows provided by operating activities were NOK 99.1 billion, an increase of NOK 12.4 billion compared to the first nine months of 2013. The increase was mainly due to higher prices measured for liquids, and a positive contribution from lower taxes paid, partly offset by changes in working capital.

Cash flows used in investing activities were NOK 75.8 billion, the decrease compared to the first nine months of 2013 was mainly due to lower investments in deposits with more than three months maturity. Investments in property, plant and equipment and intangible assets amounted to NOK 88.2 billion. Proceeds from sale of assets in 2014 amounted to NOK 11.2 billion, which relates mainly to the divestment of interests in the Shah Deniz field and the South Caucasus pipeline.

Cash flows used in financing activities amounted to NOK 29.5 billion, and are mainly related to the payments of dividends in 2014 of NOK 28.0 billion. The amounts reported in 2013 were impacted by a 2013 debt issuance of NOK 37.5 billion.

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 [7] 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. [1)]
- The **equity production development** for 2014 is estimated to be around 2% CAGR from a 2013 level rebased for divestments and redetermination. [7]
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 25 mboe per day in the fourth quarter of 2014, primarily planned outside the NCS, mostly 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 future value, gas off-take, timing of new capacity coming on stream and operational regularity represent the most significant risks related to the production guidance.

[1)] An updated status will be provided on the Capital Markets Update on 6 February 2015.

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.

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

Further information from:

Investor relations
Morten Sven Johannessen, vice president investor relations, +47 909 34 148 (mobile)

Press
Jannik Lindbæk jr., vice president media relations, +47 977 55 622 (mobile)