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STL.OL - Q1 2014 STATOIL ASA EARNINGS CONFERENCE CALL

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OVERVIEW:

Co. reported 1Q14 adjusted earnings of NOK46b and adjusted earnings after-tax of NOK15.8b.

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PRESENTATION

Hilde Nafstad - *Statoil ASA - Head of IR*

Ladies and gentlemen, welcome to Statoil's first-quarter earnings presentation. My name is Hilde Nafstad. I'm the Head of Investor Relations in Statoil.

This morning, at 7 am, Statoil announced the results for the first quarter of 2014. The press release and the presentations for today's event have been distributed through the wires and through Oslo Stock Exchange. The quarterly report and the presentations can, as usual, be downloaded from our website, statoil.com.

Please make special note of the information regarding forward-looking statements, which can be found on the last page of the presentation.

Today, Statoil's CFO, Torggrim Reitan, will go through the earnings and the outlook for the Company. The presentations will be followed by a Q&A session, and we will aim to end this conference at the latest at 2.30 CET.

Please note that the questions can be posted by means of telephone, but not directly from the web. The dial-in numbers for posting questions can be found on the website.

It is now my privilege to introduce Statoil's Chief Financial Officer, Torggrim Reitan. Please, Torggrim.

Torggrim Reitan - *Statoil ASA - CFO*

So thank you very much, Hilde, and good afternoon and good morning to all of you in the US.

Through the quarter, we have addressed the challenges that our industry is facing; growing capital intensity. Production growth has become increasingly difficult and profitability is under tough pressure. At our Capital Markets Day in February, we outlined how we are meeting these challenges, how we are prioritizing hard, reducing our cost base and increasing efficiency to get more out of each dollar that we spend, and prioritizing returns to shareholders.

So, with this as a background, I am glad to present you with a strong set of numbers today. The result represents both solid operations, but also progress in deliveries on a new plan. So let's look at the numbers.

In the first quarter, Statoil delivered adjusted earnings of NOK46 billion. This is up 9% compared to same quarter last year. The after-tax earnings are up more than 30% to around NOK16 billion.

Cash flow from underlying operations in the quarter was NOK67b, and we maintained good cost control and a strong capital discipline. Our net debt was reduced to 10% in the quarter, and earnings per share were at NOK7.40. That is more than NOK5 more than last year.

This was an especially strong quarter for our MPR segment. The results demonstrate the importance of our strong and flexible gas positions in Europe, as well as in North America. Strong demand in North America and our access to important gas infrastructure enabled us to get high prices for our gas.

Our operational performance in the first quarter was solid, especially on the Norwegian Continental Shelf. We are producing as expected, and we are on track to deliver the 2% production growth from the rebased level. Despite recent divestment and the redetermination at Ormen Lange, we are producing at the same level as last year.

Our NCS production would have grown 3% a year, without divestments and the redeterminations. And overall, for the Company, the production would have grown by 3.5% year on year, as our international production continued to grow around 4% year on year.

We are delivering according to our plan on our projects. Gudrun came on stream April 7, on time and under cost. This is the first one in a wave of large projects using a diverse international supplier base.



Two additional fast-track projects came on stream according to plan, adding valuable liquid production to our NCS portfolio. And we made the concept selection for the gigantic Johan Sverdrup field. When that reaches plateau, the field will be one of the largest producing offshore oil fields in the world.

We continued to maintain good cost control and capital discipline, and we continue to see stable underlying costs. At our Capital Markets update in February, I talked extensively about our efforts to reduce costs. The work to implement the necessary changes is well underway.

We are delivering on the staff and services projects, manning is significantly reduced and we are continuing to outsource services within this area. Furthermore, we work to standardize our projects, working on execution and make this more cost efficient. That work has started.

And finally, the Board of Directors is proposing to pay NOK1.80 per share for the first quarter in 2014, as we move from an annual dividend payment to quarterly dividend payments. The dividend will be paid in August, and our intention is to maintain this level of dividend also in the two coming quarters. The level for the fourth-quarter dividend will be announced in 2015.

And remember, these are additional dividend payments this year as we intend to pay the 2013 annual dividend, which is proposed to NOK7 per share. We're going to pay that by the end of May.

Our reported operating income was NOK51.4 billion in the first quarter. That is up 35% over last year. As always, we make adjustments to reflect underlying business. So, after adjusting down the result by NOK5.4 billion, our net operating income was NOK46b. That is up 9% compared to last year. The result was slightly impacted by 1% lower production, but was more than offset by an increase in realized prices measured in Norwegian kroner.

Our cost in underlying operations continued to remain stable. However, as a result of increased international production, our transportation costs increased. In addition, we had some increased costs related to startup preparations of new fields.

DD&A continued to increase in accordance with our expectations. As we have more new fields on stream, we'll continue to see some increases during the rest of the year, but the increase will not be as large as we saw in 2013.

We delivered adjusted earnings after tax of NOK15.8 billion. That is up 32% from the same quarter last year. The tax rate was 65.6%, which is lower than the guided tax rate. The earnings composition internationally this quarter is more skewed towards low-tax countries, such as in North America.

You should expect volatility in the tax rate from quarter to quarter, and the expected tax rate for the full year is unchanged from around 70%. In the coming years, we expect to see the tax rates stabilize below 70%, and this is primarily due to increased contribution from the US and Canada, not least the high-value oil barrels we have under development in the Gulf of Mexico.

Then, let's take a look at the segments. From our Norwegian upstream business, we delivered adjusted earnings of NOK34.2b. This is slightly down compared to last quarter. The 2% decrease was mainly caused by divestments, lower gas offtake, the redetermination on Ormen Lange and the decline, as expected. This was partly offset by a high regularity within our operations.

Underlying costs from producing fields were stable in the quarter. DD&A were up compared to same quarter last year, due to new fields on stream, but they were at the same level as the previous quarter, in the fourth quarter 2013.

From our international operations, adjusted earnings were NOK6.9 billion. This is more than 40% higher than the same period last year. We increased our equity production by 4% as we ramped up Angola fields and resumed production in In Amenas in Algeria. We also had Terra Nova in Canada back on stream and continued to ramp up our US onshore production as well. The increase was offset in part due to natural decline, especially in Angola, and disruptions resulting in lower production from Libya.

Revenues were positively impacted by higher entitlement production, NOK1.5 billion, and higher realized liquids and gas prices in kroner, NOK0.7b. This is partly offset by higher operating costs related to transportation and royalties, which are a function of the production volumes.

The results from marketing, processing and renewables were NOK5.9 billion. This is a record result, on a quarterly basis, from that segment. This is more than 100% higher than the same quarter last year. A large contribution comes from our US gas business, driven by the exceptionally cold winter in the north eastern part of the United States and contribution from LNG.



We have taken long-term positions in pipelines to Toronto and into Manhattan. We are optimizing our gas value chain much the same way that we do in Europe. We also saw good results from our European gas business, despite the warm winter and lower volumes sold into this market due to lower prices.

The first quarter saw an improvement in trading of crude, gas liquids and products over the same quarter last year. However, the result was partly offset by declining refinery margins that were at \$2.5 the last quarter.

In the first quarter, we produced 1.978m barrels per day. This is 1% lower than the same quarter last year. In Norway, we had strong regularity. The main causes for the lower production compared to last year are divestments and the redetermination of Ormen Lange. International production continued to increase.

We have provided a guidance of around 2% organic production growth this year, from a rebased level. The production in the first quarter was in line with what we need in order to deliver on this growth. This also implies that the production for the rest of the year is expected to be lower than what we saw in the first quarter, so please note the following for the rest of the year.

On NCS, Gudrun started production in April and is now ramping up. We have also two fast-track projects, new fast-track projects on stream. Valemon is our next large operator project to start, and we aim to have the field on stream towards the end of the year.

Internationally, the divestment of Shah Deniz to BP was closed end of March, and we expect the divestment to SOCAR to close shortly. Hence, this will have a negative production impact for the rest of the year.

And as you know, the next three quarters have seasonally lower gas production and they have also a higher planned maintenance. I will come back to this under the outlook session.

Using our assets, flexibility and value chain competence is an important part of our strategy. In Europe, we have modernized our gas contract portfolio. Our contract portfolio is less exposed to future price reviews than previously.

As of first quarter, 6% of NCS based contract portfolios is subject to price reviews, and around 60% of the NCS gas is sold under long-term contracts. In parallel, we have realized high prices on our gas sales portfolio.

In US shale, we are placed in some of the best places. We saw earlier that infrastructure challenges and bottlenecks would put pressure on local gas prices. We secured access to pipelines to reach premium markets in the Toronto area, and as well on Manhattan.

We now sell equity gas as well as third-party gas into these premium markets, and in January and February we benefitted significantly from these positions. On average, we achieved prices 129% above Henry Hub and 236% above local liquid hubs, and this is on average for the whole US position, including Eagle Ford production and all of that.

In the first quarter, around 70% of our global gas sales were gas indexed. We believe we are in a strong position to capture additional value through our gas business, but you must expect to see volatility in the quarterly figures also in the future.

The cash generation was strong. Cash flow from underlying operations was NOK67 billion. This is 17% higher than last year. The increase is due to higher realized prices measured in kroner, as well as stronger performance in the mid and downstream part of the business.

For NCS, we paid only one tax installment in the first quarter, so the cash tax is consequently lower than the reported tax on underlying earnings. We have closed the farm down of Shah Deniz to BP, while the farm down to SOCAR is expected to be closed in the second quarter. We invested NOK29 billion in the quarter, which is in line with an average quarterly run rate, based on the annual guidance.

Our net debt to capital employed was 10% after first quarter. It demonstrates a strong financial position. But as we are paying one and a half annual dividend this year, we expect gearing at yearend to be around 20%, as we discussed in London in February. So we continue with a firm financial framework and a solid balance sheet.

So let's move to the outlook. We expect our production to grow 2% from 2013, on a rebased level. New fields will contribute to this growth, Gudrun, fast-track projects, and towards the end of the year the Statoil operated Valemon field.

We will invest around \$20 billion in 2014. We deliver projects on time and under cost. We are committed to deliver on our improvement program, and implement cost savings and CapEx efficiency programs. I will report progress on this on our strategy update next year.



We maintain a high exploration activity. Total exploration activity level will be around \$3.5 billion. And we expect to complete around 50 wells in 2014 and we will have high impact exploration in six basins this year.

We have just spudded the exciting Martin prospect in the Gulf of Mexico, and we will spud the gigantic Dilolo prospect in the Kwanza Basin later in the quarter. Our Barents campaign will enter a new phase when we move to the Hoop area to start drilling three wells, starting next month. And in total, we will build 20 high-impact wells during the 2014 and 2016 time period.

We are entering an extensive maintenance period with around 110,000 barrels per day, in effect for the second quarter. 65% will be related to liquids; 75% will be on the NCS. For the third quarter, we expect a maintenance effect of around 60,000 barrels per day. 60% of this is liquid and 60% on the NCS.

So, to round off, we delivered strong earnings and had strong cash generation. Our operational performance was good, with production as expected. We realized significant value from our North American value chain positions. We are delivering projects on time and under cost. And we are proposing a first-quarter dividend of NOK1.80 per share.

Looking ahead, we are well positioned. We continue to efficiently develop our project portfolio. We have a strong resource base and we are prioritizing strongly. Our exploration program is extensive and there are several exciting wells for the rest of the year.

And we will maintain a firm financial framework, and we will continue to pay a predictable and growing dividend. And we will do all of this while we are keeping our balance sheet solid.

So thank you very much for your attention. But first, Hilde, this is your last quarter as Head of Investor Relation. You will move to Singapore and become our country manager there. So I just want to thank you for the strong efforts you have contributed with over the years.

And please note that Hilde was instrumental in putting in place the Toronto pipeline and the Manhattan pipeline. So I think it was a perfect quarter to finalize the role in Investor Relation. We will send a release when your replacement is ready.

So, Hilde, please help us through the Q&A session.

QUESTION AND ANSWER

Hilde Nafstad - Statoil ASA - Head of IR

Thank you very much, Torgrim, and thank you for the kind words.

For the Q&A session, Torgrim will be joined by Svein Skeie, who's the Senior Vice President for Performance Management and Risk, and Orjan Kvelvane, who's the Senior Vice President for Accounting and Financial Compliance. We'll take your questions both from the audience here in Oslo and over the telephone. And I will first ask the operator to explain the procedure for asking questions over the telephone.

Operator

(Operator Instructions).

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, operator. And we'll start with questions from the audience here in Oslo. And I'll ask you to please limit yourselves to one question each, and also state your name and who you represent. And for you in Oslo, please remember to hold down the button on your microphone while you are talking.

So please go ahead, Oslo. Any questions? Yes, Teodor?



Teodor Nilsen - *Swedbank First Securities - Analyst*

From Swedbank. Torgrim mentioned a DD&A per barrel, that that will go down over the next few years. Historically, the DD&A per barrel has increased by around \$1, as far as I remember. Does that imply that you expect a lower increase for 2014 than \$1, compared to 2013?

Torgrim Reitan - *Statoil ASA - CFO*

Okay. Thank you, Teodor. Just to take away any misunderstanding, I expect the DD&A per barrel to grow, to increase, from the level where we are today, but the growth will be less than the growth that we saw last year in DD&A.

More specifically, I won't go into the specific numbers, but it is related to that new fields that are coming on stream and new production has a higher DD&A per barrel than existing production due to two things. Normally, they are more capital intensive than historic projects. And secondly, you depreciate over a limited reserve base that will grow over the lifetime of the field.

Teodor Nilsen - *Swedbank First Securities - Analyst*

Is it fair to assume that DD&A will increase more in Norway than outside Norway, per barrel?

Torgrim Reitan - *Statoil ASA - CFO*

No, that is not a fair assumption.

Teodor Nilsen - *Swedbank First Securities - Analyst*

Okay. Thank you.

Hilde Nafstad - *Statoil ASA - Head of IR*

Any further questions in Oslo? Yes, Kjetil?

Kjetil Bakken - *Carnegie - Analyst*

Kjetil Bakken from Carnegie. I was wondering if you could elaborate a bit on the situation in the European gas market. The turmoil in the Ukraine has created fears that there could be supply disruptions from Russia. To what extent does Statoil have capacity, spare capacity, to cover any such shortfalls? And how do you see the longer-term perspective on the European gas market, if EU would like to diversify its energy supply?

Torgrim Reitan - *Statoil ASA - CFO*

Okay. Thank you, Kjetil. A big question. We have totally had a makeover of our gas contract portfolio. So currently, we have the flexibility within Statoil to serve the various parts of Europe, and also to decide how much gas is coming to the various landing points. So the flexibility lies with us, currently, so that is always a strength.

With the current situation in Europe, we have had a mild winter so storage positions are quite full. So there is flexibility there, in the short term, to cater for any disruptions. We have some flexibility to move around gas. We will do that to optimize our own prices, and using the flexibility, but of course not in the magnitude that you are mentioning.

When that is said, we would like to see stable gas deliveries to Europe from all sources. It is important that gas is a reliable and trustworthy energy source to Europe. It is important for Europe, it's important for climate and it's important for Norway.



So, in the longer term, we see that Europe needs more gas. It needs more gas from Europe, it needs more gas from Russia, and also from other sources. So we find Europe as an attractive market going forward.

Hilde Nafstad - Statoil ASA - Head of IR

Okay. Morten?

Morten Lindbaeck - Fondsinans - Analyst

Morten Lindbaeck, Fondsinans. A question regarding costs and projects going forward. You have a review on different projects on costs, Johan Castberg, Snorre 2040, and also on the UK sector Bressay. What sort of approaches do you have on these reviews? Is it on the total concept? Is it on the phased -- more phased elements? And is it integration with other projects in the area?

And especially regarding Norway, to what extent has the exemptions from the uplift from last -- the uplift changes last year, to what extent has the exemption from that helped you in your projects?

Torggrim Reitan - Statoil ASA - CFO

Okay. Thank you, Morten. You touch upon specific projects. Point number one, we are prioritizing very hard in the portfolio. We are opportunity rich; many projects to choose from. A positive net present value is currently not sufficient to get allocated investment funds.

When it comes to Johan Castberg, we are looking at different concepts. We are not ready to make an investment decision yet. We are in a process of finalizing the drilling campaign around Johan Castberg in the Barents. It's fair to say that the result of that is disappointing. We had hoped for larger volumes that could have supported the original concept.

So we are currently in an evaluation phase, and we will see. I don't have a specific date for when we make a concept selection. Very much so also for Snorre 2040. We are not yet ready to make a concept selection, but we are working to look at various concepts and optimizing the asset.

When it comes to Bressay, in the UK, that project is postponed. We have not a specific date, but there is some activity still in the license, but that has been actively postponed.

Then, on the exemption from the uplift, it has not materially changed our view on the situation. I think that's the short answer.

Hilde Nafstad - Statoil ASA - Head of IR

Do we have any further questions in Oslo? If not, we will move on to the questions over the telephone. And our first question today comes from Oswald Clint from Sanford Bernstein. Please go ahead, Oswald.

Oswald Clint - Sanford C. Bernstein - Analyst

Yes. Thank you very much. First question just on the North American gas, specifically the Marcellus, the growth there has been pretty linear in terms of its upward trajectory since you started, but do you have enough pipeline capacity to keep getting that gas out to market, and especially with the growth you are expecting?

And linked to that, with the higher Henry Hub gas prices, would you contemplate adding more rigs into that resource base going forward?

And the second question is focusing in on your OpEx per barrel, which I think it's dropped a little bit, if you take the first quarter this year versus the first quarter last year. Is that starting to show some of your cost cutting initiatives, or it's still too early to actually expect that to start to show up? Thank you.

Torggrim Reitan - Statoil ASA - CFO



Okay. Thank you very much, Oswald. First, on Marcellus, the capacity we have is 3 bcm into Toronto and it's 2 bcm into Penn Station at Manhattan. So that is sufficiently for us, for quite a bit of period going ahead. Currently, we are filling up the capacity with third-party gas volumes.

When it comes to the rig count and number of rigs in Marcellus, we are currently running rigs there. Let's see here. Nine rigs in Marcellus. Our main priority there is to drill, to keep land, building pads and hooking up to infrastructure. The local prices in Marcellus has been significantly lower than Henry Hub in the quarter. The spread has narrowed a bit lately, but we are of course monitoring it closely.

This asset we take a very long-term perspective on, so we are not in it for 2014 and 2015. This is going to be plateau for decades to come. So we are optimizing around that.

When it comes to the operational cost per barrel, you'll see from the accounts that there is an increase in operational cost in absolute terms. 60% of that growth is related to increased transportation cost, especially in North America. It is related to growing production and it's related to us being able to achieve higher prices. And then it is also affected by startup costs on Ivar Aasen, Valemon, Gina Krog and Aasta.

When you look at the underlying, for instance field costs on the Norwegian Continental Shelf, that has remained stable for I think it must be close to 10 quarters now, even if we have more fields into production. And I can promise you the NCS teams are working very hard on costs, and we see it in the numbers. We see it in the way that they work. So it is starting to feed into the numbers, but there are expected to be more to come.

Oswald Clint - Sanford C. Bernstein - Analyst

Perfect. Thank you very much, Torgrim.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you. The next question comes from Thomas Adolff with Credit Suisse. Please go ahead, Thomas.

Thomas Adolff - Credit Suisse - Analyst

Good afternoon. Thanks. The line was not so clear, so I hope I'm not repeating myself. My question is around portfolio management and distribution to shareholders, please. If I look at the past few years, you've monetized quite a few assets on good terms. And if I think about your portfolio right now, it is opportunity rich because you had superior exploration success and therefore there's more potential for more portfolio management. We all know that.

So my question really is around, when I think about further portfolio management from here on, is it fair to assume that the easy wins have already been done and that quite a bit of your contingent or discovered resource base is still in the early stages where the value has to be still fully maximized through appraisal?

And with that, my question really is it fair to assume that further material monetization, even on your base portfolio, should not be expected in the near term? And if that is the case, the potential for discretionary share buybacks should not really be happening anytime soon. Is that a fair thinking around portfolio management and share buybacks? Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you, Thomas. We have not actively communicated a divestment target, and that is deliberately. We have, however, divested quite a bit over the last three to four years, some \$18 billion. That has generated significant capital gains.

We take a very pragmatic approach to our portfolio. Each project needs to stand a test from a strategic point of view, from a profitability point of view and from a capacity point of view. And as you say, we are opportunity rich and we have made significant discoveries over the last three years.

So you should expect there to be more transactions coming, going forward. I can't be specific on what size and when, but that is a natural part of our strategy and something that we want to continue.



Then, when it comes to share buyback, so as we said in February, we intend to use that more actively going forward. It will be linked to divestment proceeds, the free cash flow situation in the Company and balance sheet situation. So to us it's a natural tool to use when we are in the situation that we are.

Thomas Adolff - Credit Suisse - Analyst

Perfect. Thank you very much.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you. And our next question comes from Haythem Rashed with Morgan Stanley. Please go ahead, Haythem.

Haythem Rashed - Morgan Stanley - Analyst

Thank you. Good afternoon. Thank you for taking the questions. Three, if I may. One, just on startups in 2Q, you mentioned that Gudrun obviously starting up most recently and on track, and I really wanted to just get an update from you on particularly CLOV and some of your fast tracks, whether we should be expecting further contribution from some of these startups in 2Q in particular.

Secondly, just to come back on your point around the cash generation for the quarter, very good to see that being so strong in 1Q. And I do recognize that this is obviously only one quarter, but if you could just give us a bit of color or a bit of a sense of how you see that result relative to your -- longer-term expectations. The \$22 billion that you've talked about on average for operating cash flow for 2014 to 2016, does this at all either give you more confidence or change your thinking around that cash flow guidance, and thinking about how the free cash flow potential of that portfolio could evolve from here on?

Finally, just a quick question on Tanzania. There have been some recent press reports suggesting that a constitutional review in the country could delay the process around getting approvals necessary for furthering the LNG development and moving that process going forward. I just wanted to get your sense on how you felt that was progressing and whether you still see this as an event within the time horizon you've stated. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you, Haythem. First question, startups, fast track, we have two more fast tracks coming during the year. As far as I recall, it is in the second half of the year.

When it comes to CLOV maybe, Svein, you have more specifics on that in Angola, so you can take that afterwards.

When it comes to cash generation, so you are right; strong cash generation in the quarter. When it is related to our guiding at the Capital Markets Day, we were confident at that point in time and we are still confident related to that guiding.

I think it's important to note that the cash generation this quarter is affected by that the day after, April 1, we paid taxes of NOK15.5 billion, and also there are other elements in there. We have the arbitration case that we have described in the MD&A is also contributing with cash in the quarter.

But going forward to 2016, I think it's important to recall that the growth that comes on, especially from the US, is without taxes. We are not paying taxes in the US. So improving results and improving cash flows in the US are right to the bottom line. It will impact the average tax rate for the Company and will be an important contributor to the growth in cash flow from operations.

Tanzania, progressing well. We are drilling another well in the license. Site location, happening. So I think all the work is progressing well. But as I said earlier, we are not in a rush. We want to make this right, more than as soon as possible.

So, Svein, on CLOV.

Svein Skeie - Statoil ASA - SVP, Performance Management and Risk



On CLOV, the FPSO arrived in that field in January. It is now being in the process of the integration towards the field. We expect to start up around midyear there. And going into further details, you should go to the operator on that, but around midyear.

Haythem Rashed - Morgan Stanley - Analyst

Okay. Thank you very much.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, Haythem. The next question comes from Guy Baber from Simmons. Please go ahead, Guy.

Guy Baber - Simmons & Co. - Analyst

Yes. Thank you, guys, for taking my question. I was hoping you could talk a little bit more about the fast-track portfolio. I was just hoping you could share what level of production those projects are contributing right now, and when you expect to hit a peak level of contribution.

Also, it's my understanding that those volumes should begin to decline by 2016. Is that accurate? And then, are you evaluating additional potential fast-track projects that could either extend that plateau there, or even increase production beyond 2016? I'm just trying to get a better sense of what medium-term production upside there might be, based on more contributions from fast-track projects.

Torgrim Reitan - Statoil ASA - CFO

Okay. So thank you very much, Guy. So we take a lot of inspiration from the fast-track concept, and we want to extend that way of thinking into the broader portfolio. And that is very much about what the capital efficiency project is about.

When it comes to the specific projects, two more have been put into production in the quarter, so now I think we have eight producing. We are expecting two more in the quarter, and then we have a long list of projects that are candidates for being a fast track.

And this is a popular concept. So if a project manager can qualify for being a fast-track project, they know that that project's more likely to happen. So there is a string of projects that we have to choose from. So for us this is a long-term initiative, and we expect there to be more projects to come.

But you are right; with the current existing projects that we are working on, it will start to decline sometime in the future. So to me this is assets that generate very strong net present value and returns to the Company, and we are encouraged and want to use that concept going forward as well.

So, production, the fast-track production level this year, it is still growing. But any details, Svein?

Svein Skeie - Statoil ASA - SVP, Performance Management and Risk

It's growing then towards the yearend. As Torgrim said, we have now put two more fast-track into production. We expect another one to come in the third quarter and a fourth one into the fourth quarter. And then we are expecting one then to come in in 2015 early, that one. So it's in a phase of being ramped up.

Guy Baber - Simmons & Co. - Analyst

Okay. Great. And I have one quick follow-up. You say that the overall production was in line with the internal plan in the full-year guidance, but my question was specifically related to the Norway liquids production, which was pretty strong this quarter. Is it fair to say that Norway liquids production was better than you all had expected IQ, and any color around that?

Torgrim Reitan - Statoil ASA - CFO



Okay. So, production from Norway was strong, particularly related to regularity in the business. So they actually delivered more than the target on regularity in the quarter. So it was a good liquid production in the quarter. But it's very much in line with the guidance for the full year; 2% growth from a rebased level.

Guy Baber - Simmons & Co. - Analyst

Thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Okay. I still have quite a list of questions, so I'll just ask you to limit yourselves to one question each. The next question comes from Alejandro Demichelis from Exane. Please go ahead.

Alejandro Demichelis - Exane BNP Paribas - Analyst

Yes. Good afternoon. Thank you very much for taking the question. Just coming back to Tanzania, could you please update us, Torgrim, in terms of the discussions around the tax situation over there? Thank you.

Torgrim Reitan - Statoil ASA - CFO

All right. Okay. Alejandro, thank you. Can you be more specifically?

Alejandro Demichelis - Exane BNP Paribas - Analyst

Well, the proposal to potentially impose some extra taxes and royalties on the development of gas production, just how the discussions are going there.

Torgrim Reitan - Statoil ASA - CFO

All right. Thank you. I think it's -- I don't have any specifics to discuss with you in the quarter, but of course everything around framework and taxes and governance and all of that is very important before we take any decisions in this respect, so it is important things that we are discussing with the authorities.

Alejandro Demichelis - Exane BNP Paribas - Analyst

Okay. Great. Thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, Alejandro. The next question comes from John Olaisen at ABG. Please go ahead, John.

John Olaisen - ABG Sundal Collier - Analyst

Yes. Good afternoon. It's a question on tax rate, internationally. A few years back you said that your guidance was 40% to 45% internationally, and in 2011 you upped that to 55%. And you also said that in a couple of years, when the North American production is becoming more important, that the tax rate should come down. And as I said, your recent guidance you said it's 50% to 55%, and in Q1 it was only 43%, 43.5%. I wonder if you could tell us, a little bit, has it started happening now? Is the tax rate internationally coming down, please?

Torgrim Reitan - Statoil ASA - CFO



Okay. Thank you, John. The tax rate in the international segment this quarter was 43%, so it's obviously lower than the guiding. We have said 50% to 55% tax rate internationally. It is still valid. Over time, we expect that to come down. As you know, both US production over the next three years will grow, with sales tax, and in due time also Canadian production growing with a lower tax rate than the average. So you are right; it is -- that is the expectation going forward.

When that is said, the guiding is still there and it is still valid for the year.

John Olaisen - ABG Sundal Collier - Analyst

So you expect a rebound, the tax rate international to come up again in Q2?

Torggrim Reitan - Statoil ASA - CFO

On a yearly basis, around 70% tax rate is our guidance, and that remains firm. So, implicitly it means that the tax rate for the last three quarters needs to be a bit higher than in the first quarter, yes.

John Olaisen - ABG Sundal Collier - Analyst

Okay. And then do you actually have tax -- big tax losses carrying forward, so you don't pay any cash tax. But does your US operation carry any P&L tax, accounting wise?

Torggrim Reitan - Statoil ASA - CFO

So, we are not paying taxes in the US, and we are not carrying P&L taxes either, for the time being.

John Olaisen - ABG Sundal Collier - Analyst

Thank you.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, John. Next question comes from Michael Alsford with Citi. Please go ahead, Michael.

Michael Alsford - Citigroup - Analyst

Thanks, Hilde. I've just got a question on the pre-salt Angola farm-outs. Just given the size of Statoil and I guess your strong recent track record on exploration, and particularly how positively you talk about Dilolo and the area, I was a bit surprised that you decided to farm out ahead of drilling. Did this decision relate to a change in view on the potential exploration, in terms of the risk of drilling in the region, or is it just simply risk management more broadly across the business?

And then just a quick question to follow up on just the arbitration payment that will be made in the second quarter to ENI. Could you give a sense as to what the value of that is, because there's a number of numbers floating around in the market and I just wanted to confirm it? Thanks.

Torggrim Reitan - Statoil ASA - CFO

Okay. Thank you, Michael. Our view of the pre-salt, Kwanza and Dilolo, has not changed at all. So this is risk management. The exploration cost is very highly related to those three and we have a very high equity share. So that is risk management.

When it comes to ENI, so that case is settled. So it is exactly what we have provided for in the accounts over the last quarters, so there are no accounting effects in our accounts. So this is as expected.



When it comes to the cash impact, I can't go into the specific details. There will be a payment from us to ENI in the next quarter, but it will be insignificant.

Hilde Nafstad - Statoil ASA - Head of IR

Then our next question comes from Peter Hutton at RBC. Please go ahead, Peter. Hello?

Peter Hutton - RBC - Analyst

(Technical difficulty) the good news is that on the published numbers Statoil generated more cash from its operations in the last quarter than did BP. That's the good news. But against that background, can I just ask about the update on the discussions with the government about the development of the marginal projects and also Johan Sverdrup?

One of the issues where you are generating significant cash is that a lot of people tend to be lining up to get a share of that cash. Can you just give us an update on where we stand in terms of those discussions, and also the reaction to not going ahead with Ormen Lange and where we stand on the electrification from the onshore? Thank you.

Torggrim Reitan - Statoil ASA - CFO

Okay. Thank you, Peter. So there is, in reality, no specific news on the development of the marginal fields. We really need to make these fields as profitable as we can. It is our responsibility, both for the shareholders and also towards the society.

When it comes to Johan Sverdrup, as you know, a great field, a great development, will produce for maybe 50 years. Plateau production 550,000 to 650,000 barrels per day, so it is significant.

When it comes to electrification, there are no specific news there. We have made our concept selection with electrification for the phase one of Johan Sverdrup, with sufficient flexibility also for the future. So that is a decision made across the license partners as the most appropriate solution. So this is moving ahead and we are really looking forward to get started on the development.

Hilde Nafstad - Statoil ASA - Head of IR

Okay. Thank you, Peter. Next in line is Michele Della Vigna from Goldman Sachs. Please go ahead, Michele.

Michele Della Vigna - Goldman Sachs - Analyst

Good afternoon, and thank you for taking my questions. I really wanted to look into the gas realizations which both in Europe and the US have substantially outperformed the benchmark for a variety of reasons; the cold weather in the US, possibly some forward selling in Europe. I was wondering if, from here for the coming quarters, we could still use a benchmark as a good indication of your realizations there, or whether something has structurally improved there so that we should factor in higher realizations.

Torggrim Reitan - Statoil ASA - CFO

Okay. Michele, thank you very much. I think it's a good opportunity for me to clarify a bit around expectation on the MPR segment. I think it's fair to say that the first-quarter result is a very strong one. It is linked to a very cold winter in the US, together with the positions that we have made.

I think it's fair to say that -- I just want to remind you what my colleague, Eldar Saetre, said earlier, that a normal quarter for that segment is typically between the lowest and the highest for 2013; \$2.5 to \$3.5 billion a quarter, maybe. But it will fluctuate from quarter to quarter.



When that is said, having flexibility, having control over bottlenecks, gives opportunities to take super profits when situations occurs like it does in the first quarter, where there was -- the bottlenecks became very vivid, and we were able to arbitrage the various pricing points. So the portfolio has that skill. So if similar circumstances occurs, there will still be opportunities to take very strong profit.

Svein Skeie - Statoil ASA - SVP, Performance Management and Risk

Just a clarification; NOK2.5 billion and NOK3.5 billion was krone and not dollar. Thank you. You said dollar. I guess it was in kroner you meant.

Torgrim Reitan - Statoil ASA - CFO

I meant kroner. Sorry about that. Thank you for clarification, Svein.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, Michele. Then we have Lydia Rainforth from Barclays next.

Lydia Rainforth - Barclays Capital - Analyst

Thank you and good afternoon, and if I could just add my thanks to Hilde for all her help over the last couple of years.

On the cost base, Helge (sic), if I could come back to -- I realize it was only two months ago that you set out the plan to control operating costs and improve the capital discipline side, but I was wondering what sort of reaction you've seen both internally and from the service providers as to that plan. And are you finding ways, or more ways than you expected to be able to look at the cost base?

And then, secondly, if I could just clarify on the decrease in the trade payables for the quarter, what that related to. I think you mentioned it but I missed it. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay. Thank you very much. Yes. So, when it comes to the improvement agenda that we are currently running, we see that our suppliers, many of them are very enthusiastic about this agenda. It makes sense. Also, they will get more out of each engineer in their business, and this makes future projects more profitable and that means more business in the long run. So I would say, in general, strong support for the agenda that we are running.

When it comes to the last question, we had a reduction in the working capital over the quarter. Orjan, can you help out on the details on the -- was it accounts payable?

Orjan Kvelvane - Statoil ASA - SVP, Accounting and Financial Compliance

Yes. So, in the trade and other receivable, we had an effect of NOK7.2 billion, so it's related to a tax receivable and a joint venture receivable and other prepayments.

Lydia Rainforth - Barclays Capital - Analyst

(Technical difficulty) very much.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you. Then we have Nitin Sharma from JPMorgan. Please go ahead, Nitin. Nitin, are you there?

Nitin Sharma - JPMorgan - Analyst



Hi. Afternoon. Sorry. Thanks for taking my question. Torgrim, I had a clarification on the MPR results in the quarter. Internal gas transfer price, which for Q1 was amongst the lowest in the last eight to 10 quarters, whereas I note that average invoice price for the quarter was quite robust. In my mind, this therefore means that the bigger than average proportion of gas sales margin was reflected in MPR segment results. Is it a fair conclusion, and could we allocate some of the stronger MPR results to the low internal transfer price? Please clarify. Thanks.

Torgrim Reitan - Statoil ASA - CFO

Okay, Nitin. Thank you. So the internal transfer price is linked to the various market indicators, like liquid prices in the various hubs and various baskets. So it should be a fair representation of the market that MPR is facing at any point in time.

So, whatever MPR can generate on value on top of that belongs in that segment. And I think it's fair to say that this quarter they have performed very well, particularly in the US, but also in Europe. So, you are right; the larger that difference is, the better the result for MPR, but there is nothing strange with the internal transfer price in the quarter.

Nitin Sharma - JPMorgan - Analyst

Thanks.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you, Nitin. And we are ready for our last question today, from Theepan Jothilingam from Nomura. Please go ahead, Theepan.

Theepan Jothilingam - Nomura - Analyst

Yes. Hi. Good afternoon, Torgrim, and thanks for taking the question. I've got actually just two quick ones. One, just a point of clarification on your exploration spend for this year, are you reiterating your previous guidance or with -- do you expect greater risk management and more farm downs potentially of any blocks or prospects you intend to drill?

And then just if you could talk about how you see performance for Snohvit for the rest of the year, that would be very helpful. Thank you.

Torgrim Reitan - Statoil ASA - CFO

Okay, Theepan. Thank you very much. So, exploration spend, \$3.5 billion. We are prioritizing our rig portfolio, strongly. We have more drilling opportunities than what we are willing to spend each year, but I think that's fair, \$3.5 billion. So I can't comment on whether there will be further farm downs, but we have a pretty pragmatic approach to all of the portfolio.

On Snohvit, thank you very much for that question. I think it's important to remind you that that will go out in maintenance in the second quarter, which is the coming quarter. And you know the LNG arbitrage profit lies in the MPR segment. So in the next quarter there will be fewer cargoes from Snohvit to generate value for the MPR segment.

The regularity on Snohvit has been very good over the last year. It has contributed strongly, both to production and to returns. And the maintenance period is meant to make some further adjustment to the plant as well. So, we do hope and we work as hard as we can to run that as smooth as it has done over the last year.

Hilde Nafstad - Statoil ASA - Head of IR

Thank you. And that will conclude the session today. Today's conference call, with the Q&A, can be replayed from our website in a few days, and there will also be a transcript available in a few days. If you have any further questions, please, as always, don't hesitate to contact the Investor Relations department.

Thank you all for participating and have a good afternoon.



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