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STL.OL - Q3 2014 Statoil ASA Earnings Call

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OVERVIEW:

Co. reported 3Q14 reported net income of negative NOK4.8b.

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PRESENTATION

Morten Sven Johannessen - ***Statoil ASA - VP, IR***

Ladies and gentlemen, welcome to Statoil's third quarter 2014 earnings presentation, both to the audience here in Oslo and to our audio and video webcast participants. My name is Morten Sven Johannessen; I am Vice President, Investor Relations, here at Statoil.

This morning **at 7**, CET, Statoil announced the results for the third quarter of 2014. The press release and presentations for today's event were distributed through the wires and through Oslo Stock Exchange. The quarterly report and the presentations can be downloaded from our website, statoil.com.

I would ask you to kindly pay attention to the information regarding forward-looking statements which can be found on the last page.

Today's program will start with Statoil's CFO, Torgrim Reitan, going through the earnings and the outlook for the Company. As usual, the presentation will be followed by a Q&A session. We will aim to end the conference around **2.30** Central European Time. Please note that questions can be posted by means of a 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 CFO, Torgrim Reitan.

Torgrim Reitan - ***Statoil ASA - CFO***

Hello. Thank you very much, Morten, and good afternoon and welcome.

I have three messages today. First, our adjusted earnings are in line with my expectations and cash generation is strong. However, reported income is impacted by quarter-specific items, and I will come back to that in more detail.

Second, we delivered strong operational performance and our improvement program is on track.

And third, we continue to progress according to our strategy with value-creating transactions and with new discoveries. And we maintain our guiding for 2014. We will revert with an update on our guiding post 2014 in February at the Capital Markets Day.

In the third quarter, we delivered adjusted earnings of NOK30.9 billion, impacted by lower oil and gas prices and the effect of divestments. We also used our flexibility in the quarter deferring gas production to create more value. This impact earnings, production and unit DD&A.

Our reported net income is negative NOK4.8 billion. This is due to quarter-specific items of, in total, close to NOK14 billion. We have taken an impairment in the oil sands in Canada, triggered by the postponement of the Corner field development.

We have also taken impairment of exploration assets in the Gulf of Mexico and Angola, Martin and Dilolo. And then negative price development impacts the value of our operational storages. This leads to an effective reported tax rate above 100% for the quarter.

I am pleased to report another quarter with strong operations. We produced more than 1.8 million barrels per day, around the same level as the third quarter last year, despite decline, divestments and moving of gas.

Divestments and deferrals impact production by more than 100,000 barrels per day in the quarter so the growth is, as such, above 4%.

We continue to produce with high regularity, starting and ramping up production and executing our projects on cost and schedule. And we are progressing well on our improvement program, particularly within production efficiency and within drilling and well.

Our strategic progress is strong. We have divested assets for $3.5 billion in the quarter on the NCS and Shah Deniz in Azerbaijan. The gain from these transactions will be booked in future periods. Since 2010, we have divested for more than $23 billion resulting in $12 billion in gains.

And we continue our exploration progress. Our new discovery offshore Tanzania brings estimated gas in place in block 2 to 21 tcf. We also recently reported 30 to 80 million additional barrels at Grane in the North Sea, an attractive candidate for our fast-track program.

We had significant high-value barrels on the NCS. The new compressor at Kvitebjorn increases the recovery by 220 million barrels, and Kristin low pressure production will yield an additional 160 million barrels.

Our third quarter dividend will be NOK1.8 per share, and this will be paid in February next year. And as you know, the second quarter dividend that will be paid in November.

Finally, as you all have seen, on October 15, the Board appointed Eldar Sætre as Acting President and CEO. Many of you know Eldar well from before, from his time as CFO in the period 2003 to 2010. The Board's and Eldar's message is very clear. Our strategy remains firm; the business will be developed according to plan; and our efficiency improvement programs will progress with full force. We will provide an update at our Capital Markets Day in February.

Our IFRS result was negative NOK4.8 billion. This is due to quarter-specific items already mentioned. Net operating income was NOK17 billion and, as always, we make adjustments to reflect the underlying business. This quarter, we adjust for impairments of NOK13.5 billion, and a gain on sale, on assets, of NOK0.9 billion, related to Dudgeon offshore wind, and over 5% interest in Angola Block 15/06. So after adjusting for these effects, earnings were NOK30.9 billion.

The result was impacted by lower oil and gas prices, divestments and deferral of gas, partly offset by higher liquid production. Realized prices have declined more than Brent in this quarter. This is due to lighter crudes trading at a larger discount than earlier, both in the US and also related to light qualities on the NCS.

Costs are impacted by activity-driven elements, such as US gas transportation costs there is also increased pension liabilities and costs related to increased gas injections. These are similar to the effects seen in the second quarter.

OpEx and SG&A grow more than production in the quarter. Some of this is transportation costs related to increased activity; some is related to diluent purchases; and we had some non-recurring costs in the US onshore.

We have previously guided increased DD&A over time and this quarter, we see, as expected, a higher unit DD&A cost. In line with practice, we book only a share of the oil reserves early in a field's life, resulting in a high DD&A per barrel in the first years. This quarter, particularly CLOV and PSVM in Angola, and Gudrun on the NCS, have high initial unit DD&A. These effects will be offset as we book more of the crude reserves.

The DD&A unit cost is also impacted by the composition of production. The high production efficiency leads to higher liquids production, with higher associated DD&A rates, compared to gas. Our flexible gas fields have a very low DD&A per barrel, so reducing gas production increases the average DD&A per barrel.

So for the year as a whole, we expect DD&A to be somewhat higher than in 2013, and this is in line with what we have said earlier.

After tax, we delivered adjusted earnings of NOK9.1 billion. The tax rate was 70.6%. The higher tax rate for the international segment is due to higher income from higher tax regimes like Angola, together with expensed exploration without tax shield.

We still expect a tax rate for the year of around 70%, and the tax rate is expected to stabilize below 70% in the coming years.

So, let's look at the segments. Our Norwegian business, the upstream business, delivered earnings of NOK23.2 billion. Results are impacted by lower prices, divestments, and reduced gas production, which is partly offset by higher liquids production, as mentioned. Costs were impacted by new field startups; however, we continue to maintain a stable underlying field cost.

From our operations outside Norway, adjusted earnings were NOK3.5 billion. Earnings were negatively impacted by lower oil and gas prices, and we also saw increased diluent costs, and some non-recurring items, as discussed. This is partly offset by lower exploration expense and, as mentioned, the discount to Brent, in realized prices, has increased this quarter.

Finally, results from MPR were NOK4.4 billion. It is up 11% year on year. This is a strong number, mainly driven by European gas, where we achieved good margins in the quarter. Some higher transportation costs in the US impacts OpEx onshore. Our LNG business is running well, and we also saw improved refinery margins in the quarter, together with increased margins on our US gas sales.

In the third quarter, we produced above 1.8 million barrels per day. This is around the same level as the third quarter last year, despite the decline, divestment and deferring of gas. We are deferring equivalent to around 30,000 barrels per day in 2014, from Troll and Oseberg flexible fields.

Turnaround also impact production, with six successful turnarounds completed in the quarter. In total, turnarounds are expected to impact the 2014 production by around 50,000 barrels per day.

In Norway, we continue to produce with high regularity, and the performance this year is actually the best since the merger with Hydro seven years ago. So my colleagues at the Norwegian continental shelf are doing a great job, and they are running the improvement agenda with large momentum.

The reduced production in the period is mainly due to the divestments, and gas optimization. So if we adjust for these factors, we have a production growth in Norway of 4% this quarter.

In the third quarter, we had two more fast-track projects on stream; it's the Fram and Svalin, and these are our projects number 8 and number 9. Our projects continue on plan, and we expect to see Valemon come into production by end of the year.

We also continue to see increased production in our international portfolio. We are ramping up in Angola, including CLOV, which reached plateau in September.

And we continue to ramp up in the US. Going forward, we will also start a new production, with Jack, St Malo, and in Canada, Hibernia South extension. This will be towards the end of the year.

For the quarter as a whole, we set a new record for Statoil's equity production internationally, with 743,000 barrels per day.

Cash generation continues to be strong. Year to date, cash flow from operations after tax is NOK102 billion. And as you know, we have paid a full-year dividend for 2013, as well as the quarterly dividend for the first quarter this year.

Cash flow to investments was NOK89 billion year to date, and the organic investment was around $15 billion. This is as expected, and as planned for.

Our net debt to capital was 19%. This was negatively impacted by a weakened Norwegian krone, as the debt is mainly held in dollars.

The second quarter dividend will be paid end of November, with around NOK5.7 billion, and we expect the net debt at the yearend to be around 20%, in line with earlier guidance. But it will, of course, be affected if there is large currency change at yearend. We have a firm financial framework, and a solid balance sheet.

So let me change pace, and share some reflections on the market environment and our response.

The last few weeks have been a reminder on the volatility and the cyclical nature of our industry. Short-term oil prices have dropped by $30 from its peak in June. But interestingly, prices in the future markets for oil, three to four years down the road, are actually higher today than one year ago.

Volatility is nothing new in our industry. The recent developments are well within the outcomes we prepare for when we do our business planning. For us, this is all about resilience and being ahead of the game.

We have secured a strong position, and taken measures well before the most recent volatility started. We are taking action when we can, and not waiting until we have to, so we are well positioned to handle different scenarios.

First of all, running with a solid balance sheet is an absolute. We have an AA- rating, a net debt of 19%, and $18 billion in cash.

Second, investing in the most robust and profitable project is key. Portfolio management is an integrated part of this, where we have a strong track record. We also maintain flexibility in our projects, as on the NCS, where we operate most of our investment and exploration ourselves.

Third, our improvement program is making us even more resilient. We have already reduced our staff costs, after reducing by more than 1,000 positions within HR, finance, communications, IT, and facility management.

We see improved production efficiency and drilling performance. And going forward, this will lead to even lower break-even cost in our projects.

So in short, we are taking the steps necessary to steer through short-term volatility. At the same time, we maintain focus on the long term by maintaining our exploration activity and maturing our strong resource base.

So let me return to the outlook.

Even though we reduced our gas production in the last quarters, we maintain our 2014 guiding. This is due to a strong operational performance and regularity so far this year. New fields will also contribute to the growth, like in Gudrun, CLOV, and the fast tracks.

Our guidance of around $20 billion in investments for the years remains. Year to date our organic CapEx is around $15 billion.

Finally, exploration activity will come in around $3.5 billion, as guided. We expect to complete around 50 wells, and I would like to highlight some of the wells to watch, going forward.

We have Bay du Verde in Canada, which are spudding as we speak; Romeo and Saturn here in Norway; Jacare in Angola; Perseus in Gulf of Mexico; as well as Kungamanga offshore Tanzania.

So let me summarize. Our earnings are impacted by the lower prices, and the reported income is reported by quarterly-specific items. But our underlying operations are strong, including our improvement program, which is on track, and we continue to deliver strategic progress.

So thank you very much for your attention. We look forward to give our status at the Capital Markets update and 4Q presentation in London in February, and I hope to see all of you there.

From January 1, Peter Hutton will join Statoil from RBC Capital Markets, to head up IR, and I look forward to his contribution.

And I also want to thank Morten here, very much, for heading up IR over the last periods, and looking forward to having you to continue as Head of IR in the US.

And then I leave the word to you, Morten, to lead us through the Q&A session. Thank you.

QUESTION AND ANSWER

Morten Sven Johannessen - ***Statoil ASA - VP, IR***

Thank you very much, Torgrim. We will now turn to the Q&A session, and Torgrim will, as usually, joined Senior Vice President for Performance, Management and Risks, Svein Skeie; and Senior Vice President for Accounting and Financial Compliance, Ørjan Kvelvane.

We will take questions both from the audience here in Oslo, and over the telephone. I will first ask the operator to explain the procedure for asking questions over the telephone. Please, operator?

Operator

(Operator Instructions).

Morten Sven Johannessen - ***Statoil ASA - VP, IR***

Thank you. We will start with a question from the audience here in Oslo. Please state your name, and the name of your company. Remember to push the button in the microphone in front of you asking your question, and then release the button when you're finished. Please try to stay to one question. Thank you.

Trond Omdal - ***Pareto Securities - Analyst***

Trond Omdal, Arctic Securities. At the Capital Markets Day in February, you targeted $100 that you were cash flow neutral after the CapEx and dividends in 2016, at $100 real. Of course, afterwards you made some divestments increasing your capital flexibility, but the current oil price being below that target, how does that influence your thinking, or the initiatives, going forward?

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you, Trond. Oil price volatility is the nature of this business. What has surprised me more is actually the stability in the oil price over the last three to four years. So as I said, we are well prepared in dealing with this.

I think key for us is to be consistent, and drive our strategy through a volatile oil crisis. So the guiding we put forward at the Capital Markets Day earlier this year still remains firm; free cash flow positive after dividend 2015, on a $100 real basis. That is the basis for the guiding.

And then you know changes has happened to the business in between, and we will give an update in due time, in February in London.

Kjetil Bakken - ***Carnegie Investment Bank AB - Analyst***

Kjetil Bakken, Carnegie. You mentioned that the realized oil prices were impacted by quality differentials which have widened this quarter. Do you see this as a quarter-specific issue, or does this reflect more long-term underlying trend shift?

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you, Kjetil. It's a very good question. We have seen that the spreads widening this quarter, and it is mainly related to oil production in the US that has a follow-on effect to the rest of the world. I think it's fair to say that this will probably be a bit volatile, and that discount as such and we follow it closely. But is the nature of the oil production mix in the US, so I'll just encourage you to follow that closely in the coming quarters.

Morten Evjenth Lund - ***Fondsfinans ASA - Analyst***

Morten Evjenth Lund, Fondsfinans. Eldar Saetre had a comment earlier today on the share buyback and you're increasingly looking at that. Could you explain a little bit what you mean by that?

Torgrim Reitan - ***Statoil ASA - CFO***

When we went in the Capital Markets Day we said that share buyback is a natural tool for us to have available, going forward, and we have the necessary mandates from the AGM. What we also said was that the use of share buybacks will be dependent on the financial situation, the balance sheet of the Company, our free cash flow generation, and proceeds from transactions. And that still remains valid.

Morten Sven Johannessen - ***Statoil ASA - VP, IR***

Any further questions here in Oslo?

Trond Omdal - ***Pareto Securities - Analyst***

Trond Omdal, Pareto. You guided your trading result and marketing and processing and renewable between NOK2.5 billion and NOK3.5 billion. You had a good result in Q3. Is that still the guiding you would use, going forward, or do you have any new answers there in Q4?

Torgrim Reitan - ***Statoil ASA - CFO***

The guiding in this segment is still valid. What you should expect is actually quite a bit of volatility in this result, so it will, on a quarter basis, be expected to be both above and below that guiding. But if you see it over a year's perspective, it should typically be within that range.

Trond Omdal - ***Pareto Securities - Analyst***

And no color on Q4?

Torgrim Reitan - ***Statoil ASA - CFO***

No color on Q4, Trond.

Morten Sven Johannessen - ***Statoil ASA - VP, IR***

I think then we'll take the first question from the telephone. Operator?

Operator

(Operator Instructions). [Oswald Clint, Sanford Bernstein].

Oswald Clint - ***Sanford C. Bernstein & Co., LLC - Analyst***

Torgrim, my question was really on the US onshore business, 300,000 barrels per day or so, with the unconventional business. Could you speak about the rough break-even WTI price for that business and how you think about that side of the portfolio, given what's happened to the oil prices in the third quarter?

And secondly, I'm just curious about your comments and obviously it's focused on a return on average capital employed. But in particular to the non-operated development queue and projects like Stampede, which were sanctioned yesterday in terms of the Gulf of Mexico, are you still comfortable that non-operated developments are still hitting the attractive return hurdles that Statoil is looking for? Maybe you could just talk about that, please. Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you, Oswald. Good to hear from you. Within the onshore complex in the US, we are generating a positive cash flow in totality, so we earn money in the current environment. Of course, we would have liked to earn even more, but that's the situation there.

On the return on capital employed, these are metrics that is very important to us. As you know, we have put forward specific guiding on that, turning the trend in a falling return on capital employed in this industry. And it's a real background behind all the improvement efforts that we are doing and the prioritization in the portfolio.

When it comes to Stampede, that is recently sanctioned, it is an attractive asset with a competitive break-even. More generally, your question on how we deal with this on a non-operated assets; of course, less flexibility. But we have also flexibility to divest out of assets that doesn't stand the profitability test or the prioritization internally. And I think if you look back on quite a few of the transactions done over the last years, you'll see a clear pattern in that.

Oswald Clint - ***Sanford C. Bernstein & Co., LLC - Analyst***

That's great, Torgrim. Thank you.

Operator

Haythem Rashed, Morgan Stanley.

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

A couple of questions from my side. Firstly, I just wanted to clarify one quick clarification, first of all. You mentioned on Jack/St Malo that you were talking about a startup by end of year. Were you referring to end of 2014 or are we talking about 2015 for that project?

Second question, perhaps relating a little bit to some comments that hit headlines this morning, from I think it was an interview with Eldar, just regarding spending, going forward, and the idea that you may reconsider spending in light of recent developments. Perhaps you could just talk a little bit about if you were to see some of these asset sales come through, are we talking about, with the lower oil price environment, you may consider lowering spending just by doing less or delaying projects? Or is this actually a view that you have perhaps on a softening in the service cost environment? But if you could provide some comments around that.

And related to that question, obviously, in the quarter you've impaired the Corner development, and that follows on from the postponement of that project. Should we expect to see, with delay on decisions, for example with projects like Bressay, further impairments coming through? Is that something that you may consider, given the developments in the oil price? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you very much. I hope I have noted down all your questions, Haythem. But Jack/St Malo is the end of this year, 2014. So spending going forward, our guiding, is $20 billion on average from 2014 to 2016 and that, for the time being, remains firm. And then we will, at the Capital Markets Day in February, revisit all our guiding and, of course, taking into account changes in our business.

You had also a question whether the current price environment is an opportunity to do less. The current price environment is well within what we have planned for and are robust for. But I think it's fair to say that we are opportunity rich. We have many investment opportunities and there are a lot of projects that are not coming as planned for a few years back. I think there are some 30 projects that we have put on the waiting list that we like, but we would like to take them later on, capitalizing on further improvements, standardizations, and also potentially another cost level.

And Corner, to give a comment on that. Corner is still positive economics, but Corner did not stand up in the competition internally among other investment opportunities. So we have put it on wait for later.

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

Thank you very much.

Operator

Brendan Warn, BMO Capital Markets.

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

I guess we've got a former CFO and a current CFO on the platform. I guess my question relates to both in the current price environment, and maybe if we thought about a scenario if the price environment was $70 a barrel, can you just talk through your funding and debt strategy, and any refinancing opportunities or refinancing we need to think about going into 2015, please?

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you very much. First of all, even if Eldar is a former CFO, I think he fully acts as a CEO currently. But of course, he has a very good understanding of the CFO business, so I think that works well.

We are constantly optimizing our funding and debt structure, and the market is there and provides good and open opportunities and attractive conditions. We are regularly operating in that market; I think last year we used, I think it was $10 billion, if I'm not wrong. So generally what we are doing, we have a pretty long duration on our debt. The average duration is 10 years, so that is from a strategic perspective a sufficiently long duration. And with the current interest rate, it makes sense with longer durations.

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

And in terms of net debt, are you comfortable around the 20%? You've been as high as 27%, 28% in the past; what can we think about for 2015?

Torgrim Reitan - ***Statoil ASA - CFO***

What we said at the Capital Markets Day in February was that a net debt in the range of 10% to 30% is a natural range for us to operate in. We want to run with a very solid balance sheet.

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

Thanks, Torgrim.

Operator

Theepan Jothilingam, Nomura.

Theepan Jothilingam - ***Nomura - Analyst***

Another point of clarification, just coming back to thinking about capital spend for next year. Could you just clarify whether CapEx for Shah Deniz and Aasta Hansteen was included in your plans for 2015 and 2016? And alongside that, just whether you can give any sort of percentage on what is committed CapEx or not.

And then aside from that, just quickly on projects and Johan Sverdrup, clearly, with the volatility in oil price but also in terms of thinking about oil for services, contractors, rig rates. Could there be a potential delay on the sanction of the first phase of Johan Sverdrup? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, thank you, Theepan. On your first question, Shah Deniz and Aasta Hansteen were projects that were sanctioned, so they were naturally part of the fuller portfolio that we had at that point in time. But of course, in our planning, we also assume that there might be changes in the portfolio.

When it comes to Johan Sverdrup, it's just such a lovely field, I must say. It's very, very strong profitability and big returns, so there's no doubt that that will be a very prioritized project, going forward. And we plan to sanction it in the beginning of 2015; there are no changes to that plan.

Theepan Jothilingam - ***Nomura - Analyst***

Okay. Just coming back to committed CapEx for next year?

Torgrim Reitan - ***Statoil ASA - CFO***

Svein?

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

For the CapEx, this year, of course, more or less all is committed for this year. But also then for next year, when we have our plans, we have quite a bit of firm commitment in the development projects that we are now maturing and progressing. So most of the CapEx in 2015 is then committed. Then we start in 2016 and onward to get more and more flexibility.

Theepan Jothilingam - ***Nomura - Analyst***

Okay, great. Is that the same, by the way, on exploration spend compared to development?

Torgrim Reitan - ***Statoil ASA - CFO***

To spend there are more flexibility, but we are a strong believer on exploration and I think it's important to continue to explore through the cycle; it's very important to us.

Operator

Nitin Sharma, JPMorgan.

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

Two questions, if I may? First one on exploration; obviously very successful campaign 2011/2013. I remember earlier this year you mentioned P90-P10 estimate of 400 to 1.5 billion boe of targeted resources. Maybe you could clarify where does the year-to-date performance stand in terms of discovered resources?

The second one, clarification cash taxes, maybe some explanation for relatively low cash taxes in first nine months of this year? Thanks.

Torgrim Reitan *- Statoil ASA - CFO*

Okay, Svein, you can prepare for the cash taxes. Exploration so far this year, of course there have been a couple of disappointments in this quarter. But overall, significant volumes added, so we are fairly in line still within our expected resource additions, compared to what we have said earlier.

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

When you look at the cash taxes, last year we paid around NOK80 billion first nine months. This year, we have paid around NOK65 billion. One of the main parts of the explanation is then related to the Norwegian continental shelf, where we then taxes, half of it the year it happened, and half of it the year after.

We have done some transactions that has affect now this year, as well as the redetermination that we have done. That will affect the taxes for this year. You can see in third quarter, we paid around NOK15 billion in taxes versus around NOK18 billion last year. We will make two installments for the taxes at the Norwegian continental shelf in fourth quarter.

Nitin Sharma *- JPMorgan - Analyst*

Thank you.

Operator

Michael Alsford, Citi.

Michael Alsford *- Citi - Analyst*

I've got two questions, please. Firstly, can you talk about what you've achieved today in terms of your percentage -- maybe in terms of percentage, sorry, of your 2016 target of annual savings of $1.3 billion from your cost and capital efficiency program?

Then secondly just on the write-offs in 3Q, you talked about some of the write-off as relating to signature bonuses on Block 39 in Angola following Dilolo. Could you, maybe, talk about how much of the signature bonus has been written off and whether there is still a degree of signature bonus that's still on the balance sheet? Thank you.

Torgrim Reitan *- Statoil ASA - CFO*

I'll take the first and Ørjan you can take the next. We will give a detailed update on the improvement programs in February in London, but I can give you some highlights on where we are. There are quite a few things that are now delivering very significant results.

Production regularity on the Norwegian continental shelf is a very important contributor to the whole STEP project. It is generating significant value. I think it's fair to say that production regularity is still not part of the $1.3 billion that we have guided on but it’s part of the bigger improvement agenda.

On drilling and wells, we see significant impact of the standardization, simplification of well and coordination. So far this year, we see that they used 15% less time on each well. On the modification portfolio, which actually quite a bit of the same approach, we see a similar impact so far this year.

Within US onshore, take Bakken as an example, last year we had improved the drilling efficiency of time per well by 25%. That was by end of 2013, and now we see 10% additional improvements. Also in Eagle Ford, that has been reduced by 50%, 50, last year. And now we see a 20% further improvement and reduction. All of this brings meaningful result and effect into it.

Then there is all these more fundamental things that will be very important part of the new project developments around. That will naturally take longer time before it turns into cash sales, as this will be more elements for new projects being sanctioned. So well underway and we will give a fuller update in February.

Ørjan Kvelvane - ***Statoil ASA - SVP Accounting & Financial Compliance***

Signature bonus, we said NOK3.4 billion related to Angola and Gulf of Mexico. When it comes to remaining into Angola, it will be between NOK2 billion and NOK3 billion left on our balance sheet related to Angola.

Michael Alsford - ***Citi - Analyst***

Great. Thanks to you both.

Operator

Rob West, Redburn.

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

Maybe you've just answered this on the exploration expenses. Just looking at the IFRS exploration expense, that was NOK8.5 billion in the quarter. And on an adjusted basis, it was NOK3.6 billion, so almost NOK5 billion difference there, which you treated as items impacting or an adjustment.

I've never seen those two numbers diverge so much before, the IFRS exploration expense and the adjusted. So I was wondering, could you give us a bit more detail around what that comprises and why you've classified it as an adjustment.

And secondly, some interesting news out last week about exploration plans next year in Norway and potentially scaling that back to as few as five wells. I was just interested if you could comment on that, and is that something that you're really thinking about? Or would that be enough to keep the resource hopper full?

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, I'll take the last one and, Ørjan, you take the first one. On the last one, I have no ideas where that information started and what it's about. Our plan is to continue with full force on NCS, and we have a very attractive drilling program on the NCS also next year. So we don't see any significant change, so Ørjan.

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

The NOK5 billion is then NOK3.4 billion related to the signature bonuses, as just commented upon, Angola and the Gulf of Mexico. Of course, there is no drilling expense into that figure.

The remaining NOK1.6 billion is part of the NOK8.1 billion impairment related to oil sands. So we take a share of the intangible asset as well of the oil sands, in total NOK8.1 billion and NOK1.6 billion is hitting the exploration line.

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

Okay, very clear. Thanks very much.

Operator

Jon Rigby, UBS.

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

Just one question; yesterday, BP commented that, in this current part of the cycle, they actually saw more opportunity than threats to their business. I just wondered, firstly, do you agree with that proposition?

The second is, given your comments around the balance sheet and protecting your cash and debt position, do you feel that you are in a position to take advantage of opportunities?

And thirdly, even if you were financially in that position, would the Board feel comfortable in doing something like that around portfolio before a permanent CEO is appointed? Thanks.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, Jon, thank you. Portfolio management is an integral part of our strategy, both divesting and acquiring. And that is something that we monitor very closely all the time so on our radar screen, it's always very large.

It will be very important for us to run with the balance sheet, of course it will. On the third point is that Statoil is fully operational and fully capable of doing everything that is expected from an oil and gas company. So Eldar is taking the full role as a CEO, so you can rest assured with that.

My last point will be that, looking at the portfolio, it's actually a very full portfolio of investment opportunities. This will grow, based on the assets that we have currently, for more than 10 years, which is a very comfortable place to be as executives in the Company. There is no urgent need to -- or no need to fix the portfolio, if that is a necessary or useful background, Jon.

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

Right, but still if opportunity to high grade presents itself, it would be something that you'd still look at. Would that be fair?

Torgrim Reitan - ***Statoil ASA - CFO***

You know I will, of course, never go into any specifics in this direction. But you know it's an obligation to both the Board and executives to constantly look at everything.

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

Right. That's very clear, thank you.

Operator

Lydia Rainforth, Barclays.

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

I have two questions, if I could? The first one, just going back to something that you said on DD&A during the call that it would be high, initially, because of the relatively low proportion of reserve that you've actually booked. Can you just talk us through what proportion of reserve, I guess on the 2P side, you would typically have booked as proved at this stage for something like CLOV or PVSM?

And then the second question is just coming back to the impairment charges. So we had impairments charges this quarter; we had impairment charges last quarter. And within the process at Statoil, do you think that there is a robust process around testing what might be adverse scenarios? Or is it just really this is a normal cost of doing business? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

All right, so Svein, you can take the DD&A. When it comes to the accounts and processes, I'll leave the word to Ørjan, but I'll just give one statement upfront. When it comes to these processes, they are very robust and very rigid, and I'm very comfortable with the judgment that we do.

I think it's fair to say it's a natural part of running a company that you will have impairments from time to time and you will have gains from time to time. So if you look and you know what we do, we do these adjusting items in our accounts. And if you look back for quite a few years, we have actually more positive results than we have taken away than negative results we had adjusted for. This is a natural part of running a big corporation. So, Svein, first on DD&A.

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

Yes, on the DD&A, as Torgrim said in his presentation there, there will be on ongoing policies, typically they will be a lower proportion of the reserves initially, due to the fact that depending on the number of wells that you have in place and when you start the production.

So, for example, for one of the fields that has been starting up this year, we have seen around 30% of the total reserves have been booked. But, as we are then moving ahead and getting the real wells in line for the project, we are then increasing as we are moving along.

If you look at for some of the projects that we had last year, with for example Skarv and Pazflor which then initially had lower reserves than at startup, they have booked additional reserves this year, so taking then the reserves up and impact of other depreciations on those things. But for one of the field started up now typically have around 30%.

Torgrim Reitan - ***Statoil ASA - CFO***

Ørjan, anything that we should add on processes around adjustments and impairments?

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

I think we follow the same procedures every quarter, either in good times or bad times, so we look for triggers and we start triggers for impairment or reversal. We do additional work and sometimes we end with reversal or impairment. So yes, we follow the same processes every quarter.

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

That's very helpful. Thank you.

Operator

Teodor Nilsen, Swedbank.

Teodor Nilsen - ***Swedbank Markets - Analyst***

There's no doubt about that you're really doing effort to reduce the costs on NCS. Have you changed the plans for any of your fast-track projects?

And then secondly, what's the book value of the oil sand assets in Canada?

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you, Teodor. The fast tracks are generally very competitive and they are working well in the internal competition within Stockholm. We have one recent development this quarter, Grane D; that is typically -- it is high value barrels and it's a great candidate for a fast-track project. So it is likely that that will be developed under that umbrella.

Oil sands, Ørjan?

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

Normally, we do not comment on the book value of single assets.

Teodor Nilsen - ***Swedbank Markets - Analyst***

And just to follow up on the fast-track projects. So is it yes or no if you have changed the plans for any of the fast-track projects coming up over the next few years?

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

There has not been any changes. We expect Oseberg Delta will be the next one coming up, and I told you that the Grane D discovery that we recently announced, that could be a candidate, and we have also other candidate for fast-track projects coming up going forward also.

Teodor Nilsen - ***Swedbank Markets - Analyst***

Okay. Thank you very much.

Operator

Anish Kapadia, TPH.

Anish Kapadia - ***Tudor, Pickering, Holt - Analyst***

A couple of questions from me as well. I was just wondering, given the better drilling efficiency that you're seeing, combined with rig rates coming down pretty substantially, seismic costs coming down, and also looking through the wells you've drilled this year, it seems like there will be a lack of appraisals that you'll need for next year. Is it fair to assume that we'll see a significant reduction in exploration and appraisal CapEx in 2015?

And then secondly, looking at the US, onshore CapEx in the US is, clearly, a lot more sensitive to oil price, so I was just looking at -- in a sustained say $80 Brent scenario where you're going to see $70 in the US and probably sub $4 gas prices, what impact does that have on your drilling plans? How many rigs would you look to be running in that kind of sustained scenario? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Thank you. So drilling efficiency is very good and it will of course be something that we take with us into next year. When that is said, we will continue to use exploration as a very important growth tool.

It will be too early to comment on exploration spending next year. We are, as we speak, working on the drilling plans and the prioritizations also within the exploration portfolio. So I have to revert to that later.

On onshore, you know we run currently with six rigs in Bakken with five rigs in Eagle Ford and nine rigs in Marcellus which we find a robust and good run rate, where we can actually take learning as we go across the drilling crews. But you're right, this is an area where there is typically more flexibility in adjusting as we go, but we have not made any adjustments to our plans.

Anish Kapadia - ***Tudor, Pickering, Holt - Analyst***

Can I just follow up on that? Is there any pressure from your partners, given their balance sheets may not be as strong as yours? Any pressure to reduce rig count in any of those players?

Torgrim Reitan - ***Statoil ASA - CFO***

I can't go into detail, but we still consider both partners and other operators to be very interested in continuing to build this business, and I think an example of that is Southwestern's acquisitions in southern Marcellus recently.

Anish Kapadia - ***Tudor, Pickering, Holt - Analyst***

Okay, great. Thank you.

Operator

Hamish Clegg, Bank of America.

Hamish Clegg - ***BofA Merrill Lynch - Analyst***

Just on the CEO plans and timing, I wondered if you could give us a little bit more color in terms of whether we can expect internal candidates from your very strong lower layers of management in the business, or are we more likely to see an external candidate? And in line with that, will there be a potential pay review to prevent the risk of other instances of CEO departures and also to attract the top talent to the business?

And finally, within the CEO question, can we expect the government to have an influence over potential hires?

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, thank you; very interesting question. The Board has started a process to find a permanent CEO. Eldar Sætre is acting but he has also stated clearly that he doesn't consider himself as the permanent candidate. The Board will do an external search but also evaluate internal candidates for the job. I'm sure that, in the end, the Board will make a good choice when it comes to the next CEO. For me, it will be wrong to elaborate too much on this issue; it more belongs with the Chairman.

Hamish Clegg - ***BofA Merrill Lynch - Analyst***

And can you even comment on whether the government will have an influence over the position, or not?

Torgrim Reitan - ***Statoil ASA - CFO***

This is a Board responsibility to find the new CEO, so that is run from that part of the organization.

Hamish Clegg - ***BofA Merrill Lynch - Analyst***

No problem. I have just one follow-up, if I may ask a second, which is, just on reserve bookings year on year, following the material divestments booked this year and some of the impairments that you've kindly talked about, can we expect reserve bookings to maybe be down year on year? And can you confirm that Johan Sverdrup when it's sanctioned next year will actually contribute to the full year of 2015, which get released in 2016?

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, reserve bookings. The reserve booking is very much driven about from sanctions of new developments, and it's driven by revisions of existing developments, and then it's acquisitions and divestures. So it's too early to comment on it. But I think it's important to note that we have done a few divestments during the year that will have an impact on the reported reserve replacement.

And, of course, then there's also this organic reserve replacement, which is among the number that is not impacted by portfolio changes. So it's too early to comment.

Hamish Clegg *- BofA Merrill Lynch - Analyst*

And can you just remind us what the major sanctions were this year?

Torgrim Reitan *- Statoil ASA - CFO*

I'll leave that to Svein. You asked about Johan Sverdrup; that is planned to be sanctioned next year.

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

On other sanctions this year, you might have seen that Stampede was sanctioned yesterday, so that has been sanctioned. We also then have some sanction looking to some of the fast tracks. We are then also then preparing for an eventual sanction of the Peregrino South in Brazil.

Hamish Clegg *- BofA Merrill Lynch - Analyst*

Thanks very much.

Operator

Andrey Aleev, Credit Suisse.

Andrey Aleev *- Credit Suisse - Analyst*

Just one on MPR; you note that the results were impacted by impairment losses related to midstream assets and reduced expectations, future trading activities. I wonder if you could give any color of the size of this reduced activity, going forward. Thank you.

Torgrim Reitan *- Statoil ASA - CFO*

Okay, thank you, Andrey. You're right, there's an impairment also in this segment. We won't go into specific assets, but it is an asset that relates to bringing oil and gas to the market that we don't see that we need that much any more.

Andrey Aleev *- Credit Suisse - Analyst*

Thank you very much.

Operator

Neill Morton, Investec.

Neill Morton *- Investec Bank (UK) Plc - Analyst*

Two questions, please. Firstly, in light of the lower oil price in the third quarter, I was surprised at the working capital build on the cash flow statement. Could you perhaps explain that? And then secondly, I'm noting that your US gas realizations have been widening versus Henry Hub. I think you had spoken before about evacuation bottlenecks in the southern Marcellus, and you took a write down in that regard in Q2, but maybe talk about when you expect some of those bottlenecks to clear. Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, Neill, thank you very much. So, Svein, if you take the working capital. When it comes to US gas realization the way we book or realize the price in the international upstream segment is related to local gas prices in the Marcellus area, while the price that we realize as a company is linked to our end price. And we sell our gas into Toronto and Manhattan, currently. So in the southern Marcellus there is bottlenecks to deal with. This is progressing, but it is not keeping up the speed with the upstream developments. And then working capital, Svein.

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

If you look at the year as a totality, we see pretty stable in the working capital environment. But I guess what you referred to is the changes from the second quarter into this quarter. And there, we have then built up some working capital that could be affected if we have vessels in transit and those things. But also, there is an underlying change where we do not have contango in the market. And when you have contango in the market, typical evaluate if you should have more into storage, which then could typically build up the working capital.

Neill Morton - ***Investec Bank (UK) Plc - Analyst***

Okay, that's fine. Were there any gas storage effects in Q3 that affected working capital?

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

I do not go into on the specific there. But in general, it is conceded that the volumes of storage hasn't been filled up because that is also actually prior to the winter when the winter season is coming. So both in Europe, but also then as a general rule also, you see that in US.

Neill Morton - ***Investec Bank (UK) Plc - Analyst***

Okay, great. Thank you.

Operator

Irene Himona, Societe Generale.

Irene Himona - ***Societe Generale - Analyst***

If I can go back to fast tracking please. You had a target to reach; I believe 100,000 barrels a day of production from fast-track projects by the end of this year. Obviously, these are very low cost, low CapEx, barrels; they seem ideally suited to a low oil-price environment. So my question is, is the plan for 100,000 barrels a day on track? And in the event of a prolonged period of price weakness, let us say if there is no OPEC response next month, how much flexibility is there to divert either more capital, or more technological expertise, to accelerate those projects being developed? Thank you.

Torgrim Reitan - ***Statoil ASA - CFO***

Okay, thank you. When it comes to the fast track you know there are nine of them on stream now, so they are contributing with very valuable barrels. We have had some issue with one of them, on the reservoir side, so it will not be fully delivered on the 100,000 barrels a day. The flexibility, we, of course, prioritize the resources where we can get best use with wherever they are, as such, so absolutely have flexibility.

Irene Himona - ***Societe Generale - Analyst***

Okay. Thank you.

Morten Sven Johannessen - ***Statoil ASA - VP, IR***

Thank you very much. That will conclude our Q&A session today. Today's presentation and Q&A session can be replayed from our website in a few days, and transcripts will be available.

Any further questions can be made to the Investor Relations team, and you'll find the details on the back of the presentation, or on statoil.com. Thank you for participating and have a good afternoon.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.