Press release

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2014 FOURTH QUARTER RESULTS

Statoil's fourth quarter and preliminary 2014 results and Capital Markets Update

Statoil's net operating income for the full year 2014 was NOK 109.5 billion. Fourth quarter 2014 net operating income was NOK 9.0 billion. Adjusted earnings in the fourth quarter of 2014 were NOK 26.9 billion, compared to NOK 42.3 billion in the fourth quarter of 2013. For the full year 2014, adjusted earnings were NOK 136.1 billion compared to NOK 163.1 billion in 2013.

Today, the company also presents its Capital Markets Update, reducing organic capital expenditure from USD 20 billion to USD 18 billion in 2015, stepping up its improvement programme by 30% to USD 1.7 billion per year from 2016, and expecting organic production growth of 2% to 2016 and 3% from 2016 to 2018. Statoil proposes to the Annual General Meeting a fourth quarter dividend of NOK 1.80 per share, with the intention to pay a flat dividend in the first three quarters of 2015.

"Statoil's quarterly earnings were affected by the sharp drop in oil prices. Our net income was also impacted by specific accounting charges. Underlying performance and cash flows were solid in 2014, supported by profitable growth, strong operational improvements, and solid marketing- and trading results. Our financial position is robust, and we maintain a stable dividend. Through our significant flexibility in our investment programme we are well prepared for continuous market weakness and uncertainty," says Eldar Sætre, president and CEO of Statoil ASA.

On 4 February the Statoil board of directors appointed Eldar Sætre as Statoil's new president and CEO. Sætre has been acting as president and CEO since October 2014, and assumed the role with immediate effect. He has 35 years of experience from Statoil.

Adjusted earnings in the fourth quarter of 2014 were NOK 26.9 billion, compared to NOK 42.3 billion in the fourth quarter of 2013. The 36% reduction in the quarter is mainly caused by the significant drop in the liquids prices. In addition, lower European gas prices and increased depreciation and operating costs contributed to the decrease in adjusted earnings. Strong operational performance on the Norwegian Continental Shelf (NCS) as well as a positive exchange rate development (NOK/USD), improved refinery margins and increased volume of liquids sold counteracted the decrease.

Adjusted earnings after tax in the fourth quarter of 2014 amounted to NOK 4.3 billion, down from NOK 11.0 billion in the same period last year. Adjusted earnings after tax were impacted by an effective tax rate of 84% in the fourth quarter compared to a normal level around 70%. The high effective tax rate in the quarter was mainly due to expensed exploration costs with limited tax protection.

Statoil's reported net income for the fourth quarter in accordance with IFRS was negative NOK 8.9 billion. This represents a decrease from the reported positive NOK 14.8 billion in the same period in 2013 and was due to net quarter specific accounting charges of NOK 18 billion. These charges were mainly due to impairment losses related to Statoil's international operations and various exploration assets, partly offset by gains from sale of assets.

"We continue to deliver in accordance with our cost and capital efficiency programmes. Our operational efficiency has been high, our work to improve safety continues to show good progress, and our project development portfolio is progressing as expected," says Sætre.

Equity production was 2,103 mboe per day in the fourth quarter of 2014, compared to 1,945 mboe per day in the same period in 2013. The increase was mainly due to start-up and ramp-up of production on various fields and higher production regularity compared to the same period last year. Expected natural decline and reduced ownership shares from divestments partly offset the increase. The annual equity production outside of Norway ended at a record high of 743 mboe per day.

Statoil reported cash flow from operations in 2014 of NOK 209 billion before taxes paid and working capital items. At the end of the year, Statoil's net debt to capital employed was 20%. Organic capital expenditure was around USD 20 billion in 2014, in line with the guidance for 2014.

Statoil maintained strong project execution through 2014. Gudrun and three fast-track projects came on stream on the NCS, and production was initiated from the partner-operated Jack/St. Malo project in the US Gulf of Mexico during the fourth quarter. On 3 January 2015, the Valemon field in the North Sea came on stream.

Statoil was among the leading explorers also in 2014. The company added 540 million barrels of oil equivalents to the resource base from exploration in 2014. Statoil reported a reserve replacement ratio (RRR) of 62% in 2014. Organic RRR was 96%, which is a reduction compared to 2013, however, on a satisfactory level. The average three-year replacement ratio was 117% at the end of 2014.
In the fourth quarter Statoil entered into an agreement to reduce its ownership in the non-operated US southern Marcellus onshore asset to 23% for a cash consideration of USD 0.4 billion. The transaction was closed in the first quarter of 2015. For the full year Statoil has announced transactions with proceeds of more than USD 4 billion, including the divestments of assets on the NCS and a sale of Shah Deniz in Azerbaijan.

The serious incident frequency (SIF) was 0.6 in the fourth quarter of 2014 compared to 0.7 in the fourth quarter of 2013. For the full year, the SIF improved from 0.8 in 2013 to 0.6 in 2014.

Capital Markets Update

At today's Capital Markets Update (CMU), Statoil announces plans to address the current environment forcefully while continuing to invest in high-quality projects.

“Last year we outlined the plan to strengthen Statoil’s competitiveness. Our strategy remains firm and we now reinforce our efforts and commitment to deliver on our priorities of high value growth, increased efficiency and competitive shareholder returns”, says Eldar Sætre.

The plans include:

- Grow organic production annually by 2% to 2016 and 3% from 2016 to 2018
- Reduce organic capital expenditure from USD 20 billion to USD 18 billion in 2015
- Step-up the improvement program by 30% to USD 1.7 billion from 2016
- In total, the plans will provide total cash improvements of USD 5 billion
- Preparedness to manage material portfolio flexibility to secure free cash flow covering dividend and operate within 15-30% net debt across a broad set of price scenarios
- Proposed fourth quarter dividends of 1.80 NOK per share, with the intention to maintain a flat dividend for the first three quarters of 2015

Cash improvement of USD 5 billion
Statoil presented a comprehensive improvement programme at the CMU in February 2014, targeting annual savings of USD 1.3 billion per year from 2016. This year, Statoil will step up its efficiency program by 30% with a target to realise USD 1.7 billion in annual savings.

The organic capital expenditure in 2015 will be reduced to USD 18 billion, a USD 2 billion reduction compared to previously guided level.

“We have improved our production efficiency on the NCS by more than five percentage points, adding 50,000 barrels per day – equivalent to more than USD 1 billion in cash flows on an annual basis. Together with the annual efficiency gains from 2016 of USD 1.7 billion and reduced capital expenditure and exploration expenditure of USD 2.2 billion, we see a pre-tax cash improvement of around USD 5 billion. This corresponds to reduced cash neutrality by around 30 USD per barrel from 2016,” says Sætre.

Balancing growth and return
Statoil expects to grow the organic production annually by around 2% from 2014-16, and by 3% from 2016-2018.

“Based on our sanctioned portfolio of projects, we will continue to deliver high value production growth towards 2018. We maintain significant flexibility in our broad portfolio of operated assets, and we are prepared to use this flexibility to deliver on our priorities. Most of this flexibility will be maintained through 2015, however, Statoil will continue to invest in high quality assets, and plans to submit the Plan for Development and Operations (PDO) for Johan Sverdrup in February 2015,” Sætre says.

Statoil’s portfolio of onshore and non-sanctioned projects holds significant optionality, and more than one third of the capital expenditure in 2017-18 is uncommitted. By utilising the flexibility in the portfolio, Statoil will be able to deliver free cash flow to cover dividend in 2016 at an oil price of USD 100 per barrel, 2017 at an oil price of USD 80 per barrel and in 2018 at USD 60 per barrel.

Cash flow growth from producing assets combined with the flexible investment programme enables Statoil to maintain the indicated net debt of 15-30% at different price scenarios towards 2018.

Capital discipline and distribution
“Our financial position is robust, we maintain our financial capacity as well as a solid balance sheet and we intend to honour our commitment to our shareholders, providing a competitive dividend," says new CEO Eldar Sætre.

The Statoil board of directors proposes a dividend of NOK 1.80 per share for the fourth quarter of 2014, subject to approval at the Annual General Meeting in line with the authorisation from May 2014. The annual dividends for 2014 amounted to NOK 7.20 per share, an increase from NOK 7.00 in 2013.

Fourth quarter 2014	2013	change		Full year 2014	2013	change
9.0	43.9	(79%)	IFRS Net operating income (NOK billion)	**109.5**	155.5	(30%)
26.9	42.3	(36%)	Adjusted earnings (NOK billion) [5]	**136.1**	163.1	(17%)
(8.9)	14.8	>(100%)	IFRS Net income (NOK billion)	**22.0**	39.2	(44%)
4.3	11.0	(61%)	Adjusted earnings after tax (NOK billion) [5]	**39.1**	46.4	(16%)
2,103	1,945	8%	Total equity liquids and gas production (mboe per day) [4]	**1,927**	1,940	(1%)
458.9	607.8	(24%)	Group average liquids price (NOK/bbl) [1]	**558.5**	587.8	(5%)

Key events since third quarter 2014:

- **Progressing Johan Sverdrup:** The partnership has agreed to recommend Statoil as operator of all phases of the field. Jacket and engineering contracts have been awarded and a Plan for Development and Operation (PDO) will be submitted to the authorities in February 2015.
- **New projects on stream:** Valemon came on stream in the North Sea on 3 January 2015. First oil from Gulf of Mexico Jack/St. Malo project on 2 December 2014.
- **Developing new projects:** Stampede development sanctioned in Gulf of Mexico, development plans for Gullfaks Rimfaksdalen and Peregrino Phase II submitted.
- **Optimising projects:** Postponing the planned date for DG2 for Snorre 2040 project from March 2015 to October 2015.
- **Portfolio optimisation:** Entered into an agreement to reduce the ownership in the non-operated US southern Marcellus onshore asset from 29% to 23% for a cash consideration of USD 0.4 billion, the transaction was closed in the first quarter of 2015. The transaction with Wintershall was completed in the fourth quarter of 2014 and a gain of NOK 5.9 billion was recognised.
- **Exploration:** Time-out in Kwanza exploration drilling program, as a consequence a rig contract was cancelled. Added 15 licences on the NCS, 12 licenses on UKCS and 4 new permits in New Zealand. The suspension periods for the drilling rigs COSL Pioneer, Scarabeo 5 and Songa Trym were extended.
- **Debt capital market transactions:** USD 3 billion issued in November 2014.
- **GE and Statoil:** Ambitious new collaboration to accelerate development of sustainable energy solutions.

FOURTH QUARTER 2014 GROUP REVIEW

The quarterly results were impacted by the significant drop in oil and gas prices in the fourth quarter, leading to lower earnings and impairment losses. Increased equity production reflecting good operations with low unplanned production losses, counteracted the decrease.

Total equity liquids and gas production [4] was 2,103 mboe per day, up 8% from 1,945 mboe per day in fourth quarter of 2013. The increase was mainly due to start-up and ramp-up of production on various fields and higher production regularity compared to the fourth quarter of 2013. Expected natural decline and reduced ownership shares from divestments partly offset the increase.

Total entitlement liquids and gas production [3] was 1,932 mboe per day, up 12% from 1,723 mboe per day in fourth quarter of 2013, impacted by the increase in equity production and a lower negative effect from production sharing agreements (PSA effect).

Net operating income (IFRS) was NOK 9.0 billion in the fourth quarter, compared to NOK 43.9 billion in the fourth quarter of 2013.

In the fourth quarter of 2014, net operating income was negatively affected by net impairment losses related to certain assets of NOK 20.6 billion and the effect from cancellation of a rig contract of NOK 2.1 billion. In the fourth quarter of 2014, net operating income was positively affected by gains from sale of assets of NOK 6.2 billion and a gain related to changes of pension plans of NOK 3.5 billion.

In the fourth quarter of 2013, net operating income was positively impacted by gains from sale of assets of NOK 10.5 billion, while lower fair values of derivatives of NOK 5.1 billion and net impairment losses of NOK 1.5 billion impacted net operating income negatively.

Adjusted earnings [5] were NOK 26.9 billion in the fourth quarter, down 36% compared to the fourth quarter of 2013 mainly caused by the significant drop in the liquids prices. In addition, lower European gas prices and increased depreciation and operating costs contributed to the decrease. Improved refinery margins, increased production and the strengthening of the USD towards NOK counteracted the decrease in adjusted earnings.

Adjusted operating and selling, general and administrative expenses increased by 9% compared to the fourth quarter of 2013, mainly driven by activities related to transportation, new fields coming on stream, input elements to operations, and a negative currency effect (NOK/USD).

The increase in adjusted depreciation, amortisation and net impairment losses was mainly due to increased production, new investments, start-up and ramp-up of production and increased asset retirement obligation with corresponding higher basis for depreciations. In addition, the exchange rate development (NOK/USD) added significantly to the increased depreciation costs compared to the fourth quarter of 2013.

Adjusted exploration expenses increased by NOK 2.9 billion, impacted by higher drilling activity, a lower capitalisation rate due to non-commercial wells and negative currency effects compared to the fourth quarter of 2013.

Fourth quarter 2014	Fourth quarter 2013 (restated)	change	Adjusted earnings (in NOK billion)	Full year 2014	Full year 2013 (restated)	change
148.7	154.9	(4%)	Adjusted total revenues and other income	**607.1**	629.6	(4%)
(70.6)	(70.9)	(0%)	Adjusted purchases [6]	**(296.1)**	(307.5)	(4%)
(21.4)	(19.6)	9%	Adjusted operating and selling, general and administrative expenses	**(83.3)**	(76.3)	9%
(22.3)	(17.5)	27%	Adjusted depreciation, amortisation and net impairment losses	**(74.5)**	(65.6)	14%
(7.5)	(4.6)	63%	Adjusted exploration expenses	**(17.1)**	(17.1)	(0%)
26.9	42.3	(36%)	Adjusted earnings [5]	**136.1**	163.1	(17%)
4.3	11.0	(61%)	Adjusted earnings after tax [5]	**39.1**	46.4	(16%)

Proved reserves at the end of 2014 were 5,359 mmboe, a decrease compared to 5,600 mmboe at the end of 2013. In 2014, a total of 629 mmboe were added through revisions, extensions, discoveries and acquisitions. The reductions in proved reserves were related to sale of reserves in place of 233 mmboe and entitlement production of 635 mmboe.

The reserve replacement ratio (RRR), which measures the proved reserves added to the reserve base (including the effects of sales and purchases) relative to the amount of oil and gas produced, was 62% in 2014, compared to 128% in 2013. The organic reserves replacement ratio was 96% compared to 145% in 2013 and the average three-year replacement ratio (including the effects of sales and purchases), was 97% at the end of 2014 compared to 115% in 2013. The decrease in reserves in 2014 was primarily due to high production on existing fields and divestments during 2014. This was partly compensated for by positive revisions on several of our producing fields due to good production performance and continued IOR efforts, sanctioning new field developments in Norway and Canada and continued drilling in our US onshore assets Bakken, Eagle Ford and Marcellus. Shah Deniz is included in proved reserves with a 15.5% equity share. The announced farm out will impact the RRR in 2015.

Based on adjusted earnings after tax and average capital employed, **adjusted return on average capital employed (ROACE)** was 8.7% for the 12 month period ended 31 December 2014, and 11.8% for the 12 month period ended 31 December 2013. Return on average capital employed after tax (ROACE) was 2.7% and 11.3% for the two periods, respectively.

Organic capital expenditures (excluding acquisitions and capital leases) amounted to NOK 121.6 billion or USD 19.6 billion for the year ended 2014. This is in line with our guidance for 2014. Gross investments amounted to NOK 125.1 billion.

Adjusted earnings after tax were NOK 4.3 billion, which reflects an effective tax rate on adjusted earnings of 84.1%, compared to an effective tax rate on adjusted earnings of 73.9% in the fourth quarter of 2013. The tax rate increased mainly due to high tax rates on adjusted earnings from Development and Production International in the fourth quarter of 2014. This was mainly caused by relatively higher adjusted earnings from high tax regimes, and significant higher exploration expenses without reported tax protections. The increased tax on adjusted earnings was also caused by relatively higher adjusted earnings from the NCS in the fourth quarter of 2014. Income from the NCS is subject to higher than average tax rates.

Cash flows provided by operating activities were NOK 27.3 billion in the fourth quarter of 2014 compared to NOK 14.6 billion in the fourth quarter of 2013. The increase of NOK 12.7 billion was mainly due to changes in working capital. Excluding working capital movements, cash flows from operating activities were NOK 10 billion in the fourth quarter of 2014 compared to NOK 23.6 billion in the fourth quarter of 2013. The decrease of NOK 13.6 billion was mainly due to falling prices and increased exploration expenditures, offset by lower taxes paid in fourth quarter of 2014.

Cash flows used in investing activities were NOK 36.2 billion in the fourth quarter of 2014 compared to NOK 33.6 billion in the fourth quarter of 2013, an increase of NOK 2.6 billion. Capital expenditures amounted to NOK 33.1 billion, an increase of NOK 2.4 billion. Proceeds from sale of assets in the fourth quarter of 2014 of NOK 11.4 billion were mainly related to the sale of interests in licences on the NCS.

Cash flows provided by financing activities were NOK 6.5 billion mainly impacted by the issuance of new debt in the fourth quarter of 2014 of NOK 20.5 billion, repayment of finance debt and payments of dividends in the quarter. Cash flows provided by financing activities reported in the fourth quarter of 2013 was mainly impacted by debt issuance of NOK 25.3 billion.

Full year 2014

Total equity liquids and gas production [4] was 1,927 mboe per day for the full year of 2014, around the same level as for the full year of 2013 when total equity production amounted to 1,940 mboe per day. Start-up and ramp-up of production on various fields and higher production regularity compared to last year were offset by expected natural decline and reduced ownership shares from divestments.

Total entitlement liquids and gas production [3] was 1,729 mboe per day for the full year of 2014 compared to 1,719 mboe per day for the full year of 2013.

Net operating income (IFRS) was NOK 109.5 billion compared to NOK 155.5 billion in the full year of 2013.

Net operating income in 2014 was negatively affected by net impairment losses of certain assets of total NOK 38.7 billion and the termination of a rig contract of NOK 2.1 billion. Gain on sale of assets of NOK 12.7 billion (mainly related to the sale of interests in licences on NCS and in the Shah Deniz project), an award payment related to a commercial dispute of NOK 2.8 billion and a gain of NOK 3.5 billion related to the implementation of new pension plans positively affected net operating income in 2014.

Net operating income in 2013 was negatively impacted by net impairments losses of NOK 6.8 billion (mainly relating to the refineries due to lower future expected refining margins), a provision related to a redetermination process of NOK 4.3 billion, and an onerous contract provision of NOK 4.9 billion related to the Cove Point terminal in the US, while gain on sale of assets of NOK 16.9 billion (mainly related to the sale of certain ownership interests in licences on the NCS) affected net operating income positively.

Adjusted earnings [5] were NOK 136.1 billion in the full year of 2014, down by 17% from NOK 163.1 billion. The reduction compared to the full year of 2013 was mainly due to decreased prices for liquids and gas, partly offset by a positive currency effect on revenue from the NOK/USD development. The exchange rate effect was partly offset by a cost increase for all USD denominated expenses when compared to 2013.

Adjusted operating and selling, general and administrative expenses increased mainly due to new fields coming on stream, onshore production ramp-up and increased transportation costs in the North America. Adjusted depreciation, amortisation and net impairment losses increased by 14% mainly due to new investments, higher production and increased asset retirement obligation, with a corresponding higher basis for depreciation, partly offset by increased estimate of proved reserves.

Adjusted exploration expenses amounted to NOK 17.1 billion in 2014, the same level as in 2013. Lower drilling and seismic activity and reduced field development costs were offset by increased expenses related to unsuccessful wells in 2014 compared to 2013.

Adjusted earnings after tax were NOK 39.1 billion in 2014 compared to NOK 46.4 billion in 2013. The effective tax rate on adjusted earnings was 71.3% in 2014 compared to an effective tax rate on 71.6% in 2013.

Cash flows provided by operating activities were NOK 126.5 billion in 2014 compared to NOK 101.3 billion in 2013. The increase of NOK 25.2 billion was mainly due to changes in working capital and lower taxes paid in 2014.

Cash flows used in investing activities were NOK 112.0 billion in 2014 compared to NOK 110.4 billion in 2013, an increase of NOK 1.6 billion mainly due to increased capital expenditures, partly offset by lower investments in deposits with more than three months maturity. The proceeds from sale of assets in 2014 of NOK 22.6 billion mainly relates to the divestment of interests in the Shah Deniz field and the South Caucasus pipeline and the sale of interests in licences on the NCS.

Cash flows used in financing activities were NOK 23.1 billion and are mainly related to payments of dividends and repayments of debt, partly offset by issuance of new debt in the fourth quarter of 2014. The amounts reported in 2013 were influenced by debt issuances of NOK 62.8 billion in total.

OUTLOOK

- **Organic capital expenditures** for 2015 (i.e. excluding acquisitions, capital leases and other investments with significant different cash flow pattern), are estimated at around USD 18 billion.
- Statoil will continue to mature the large portfolio of exploration assets and estimates a total **exploration activity** level at around USD 3.2 billion for 2015, excluding signature bonuses.
- Statoil expects to deliver **efficiency improvements** with pre-tax cash flow effects of around USD 1.7 billion from 2016.
- Our ambition is to maintain **RoACE** (Return on Average Capital Employed) at 2013 level adjusted for price and currency level, and to keep our **unit of production cost** in the top quartile of our peer group.
- For the period 2014 - 2016 organic production growth [7] is expected to come from new projects resulting in around 2% CAGR (Compound Annual Growth Rate) from a 2014 level rebased for divestments.
- The **equity production development** for 2015 is estimated to be around 2% CAGR from a 2014 level rebased for divestments [7].
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 10 mboe per day in the first quarter of 2015, planned outside the NCS, and in liquids. In total, the maintenance is estimated to reduce equity production by around 45 mboe per day for the full year 2015, of which the majority is liquids.
- **Indicative PSA (Production Sharing Agreement) effect and US royalties** are estimated to around 160 mboe per day in 2015 based on an oil price of USD 60 per barrel and 190 mboe per day in based on an oil price of USD 100 per barrel.
- Deferral of gas production to create future value, gas off-take, timing of new capacity coming on stream and operational regularity represent the most significant risks related to the production guidance.

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future.

References

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

Further information from:

Investor relations
Peter Hutton, Senior vice president Investor relations, +44 7881 918 792 (mobile)

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