

FINAL TRANSCRIPT

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STO - Q4 2009 Statoil ASA Earnings Conference Call

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Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

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PRESENTATION

Lars Troen Sorensen - *Statoil ASA - SVP - IR*

Can I ask you to take your seats please? What we will do now is to just to take a brief safety demonstration before we go on with the webcast here. My name is Lars Sorensen, and I'm the Head of Investor Relations, by the way, and welcome to the Brewery.

We put safety high on the agenda (inaudible - technical difficulty) to be aware of the emergency exits on both sides of this room. There is a voice activated alarm in the Brewery here, so if we are asked to evacuate, please leave calmly through the exits on both sides. Mustering points is outside on the other side of Chiswell Street, so just across the street and we'll meet up there, but there aren't any drills for today, so if it goes off, it's real. Alright, then we're ready to start our webcast and the presentation.

Welcome to this Statoil presentation, which takes place from Presentation Center in London City. My name is Lars Sorensen, and I'm the head of Investor Relations. Today's event can, as usually, be followed by webcast and that makes me extend my warm welcome to the webcast audience. As you know, safety is of paramount importance, and just for the information to the viewers on the internet, we just had a safety briefing here in the Brewery. So, we don't need to waste time on that.

Today's program will be split in two. First, our Chief Financial Officer in Statoil Eldar Saetre will give a short fourth quarter and 2009 earnings presentation. At 1.15 this afternoon London time, we will start the strategy update with our Chief Executive Officer Helge Lund, our Chief Financial Officer Eldar Saetre and our Executive VP for Natural Gas, Rune Bjornson. That's at 1.15 London time.

Each of the two blocks of presentations, first the fourth quarter in 2009, and then the strategy update with the three presentations will be followed by a Q&A session, so you will have the opportunity to ask questions. And the viewers on the internet can as usually send in questions to my PC here, and I will ask the questions on your behalf.

30 London Time, we published the presentations, both the presentations that we're going to follow here now in a minute, and also the strategy presentations that we will present at 1.15. So, they are downloadable. You are able to download those from



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

our website www.statoil.com. Can I ask you, both here in London and also the ones that download the presentations on the internet, to study carefully the forward-looking statements disclaimer at the end of the presentation please?

Yes, now it's my privilege to pass the floor to Eldar Saetre.

Eldar Saetre - Statoil ASA - CFO

Thank you, Lars. Good afternoon and thanks to all of you for joining us at this fourth quarter and also full year earnings presentation. The fourth quarter of 2009 is another quarter with strong deliveries from Statoil, both when it comes to production, to cost reductions and also exploration results. We have also delivered inline with our guidance on unit production costs, our guidance on exploration activities, while we came out slightly below our forecast on capital expenditure. At the same time, we had a strong cash generation.

So, let me start by looking at the financial results for the fourth quarter. Okay, this is the full year. In -- I think you have to -- just excuse me a little bit. Where's the fourth quarter? There we go. Sorry about that, it'll never happen again. In the quarter, Statoil reported a net operating income of NOK33.5 billion and a net income of NOK7.1 billion. Adjusted earnings were NOK34.4 billion and adjusted earnings after tax NOK9.7 billion.

Adjusted earnings went down 20% from last year, and this is mainly because of an almost 50% reduction in gas prices in Norwegian kroner. This was partly balanced by increasing liquids prices, lower operating costs and an almost 30% reduction in our SG&A costs. Net income was up NOK2 billion, from NOK2 billion last year to NOK7.1 billion this quarter, while the adjusted earnings after-tax were down 17%.

The reported tax rate was 78% as it was reported while the tax rate on the adjusted earnings were 72%, and the difference is mainly related to the tax rate on the various adjustments that we make to our accounts. The full reconciliation of our quarterly tax rate and the net financial items is given in our MD&A. Cost development including the realization of merger synergies have developed at planned, and the additional cost reduction program that we introduced one year ago for 2009 and 2010 is also on track. And I will give some more detail into these developments in the presentation later this afternoon.

The net adjustments that we make to our net operating income were quite small this quarter totaling NOK0.9 billion, and they are all specified in the MD&A material. So, let's then look at the full year, hopefully, earnings, there they are. Our 2009 net income was NOK17.7 billion compared to NOK43.3 billion last year. Adjusted earnings were down 36% year-on-year, while the adjusted earnings after tax fell by 33% to NOK38.3 billion.

Lower oil prices and gas prices were the main drivers behind the reduction. Both operating expenses, SG&A and exploration expenses were also somewhat down, while adjusted depreciations increased because of higher depreciation related to the new fields that were brought into operation.

We have also had a significant drop, as you know, in the refining margin, while our natural gas business, trading business has continued to deliver strong results. The net financial items, as reported amounted to a loss of NOK6.7 billion for 2009, and if we adjust for interest rates derivatives and foreign exchange impacts and also a impairments related to the Pernis refinery, the net financial items added up to a negative of NOK0.3 billion, which is exactly where it should be, and as we have guided.

Our tax rate on the adjusted or the underlying earnings was 71% for the full year, and this is on par with the year before, and according to the guidance that we have given you on our average tax rate. So, let's then take a closer look at the production figures for 2009 and for the quarter. Total equity production of oil and gas was 2.057 million barrels per day in the fourth quarter, and that's up 2% from the previous year.



Feb. 11, 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

The increase in the quarterly equity production was mainly driven by our strong equity production growth outside the Norwegian Continental Shelf. Entitlement production in the quarter was almost flat at NOK1.850 million, NOK1.852 million exactly, and this implies PSA, so called PSA effects of 205,000 barrels per day in this quarter, which is actually more than what is typical.

And this is due to a very high equity production in the fourth quarter also from these fields, and a correction to entitlement volumes from previous quarters. So, the PSA effect for the full year was 156,000 barrels per day, which is exactly inline with the guidance that we have given you assuming an oil price of around \$60 per barrel.

An updated guidance on production sharing effects will be given in the presentation material is given, and short version is that there is no material changes to the guidance compared to what we have said previously. The full year production for 2009, as you see, came in at 1,962 thousand barrels per day, and that is slightly above the number that we gave you more or less exactly one year ago. We will provide more information on guidance going forward on the production, and for 2010 and onwards in our strategy presentation.

Now, a few comments also to the adjusted earnings for each of the business areas. E&P Norway reached adjusted earnings of NOK27 billion and a quarter which is down 23% compared to last year. The main driver is approximately 50% reduction in the gas - the internal gas transfer price to our natural gas business segment, and also a lower liquids production.

This was partly balanced by increasing gas production, gas volumes, and a 17% increase in the price of liquids including NGL in Norwegian Kroner. The 6% decrease in liquids production is mainly due to natural decline, and also some well related and operational issues in this quarter.

Adjusted operating expenses are approximately 10% lower year-on-year, and exploration expenses are also somewhat down. International E&P had adjusted earnings of NOK3.4 billion in the quarter, and this is considerably up from the NOK0.3 billion level that we had in the same quarter last year. The main drivers is higher oil price obviously, and also growing equity production.

The equity production increased by 13% year-on-year to a level of almost 550,000 barrels per day, while the total entitlement volumes were up 8% compared to last year. The adjusted depreciations on the international business segment were at approximately the same level as one year ago, increasing depreciation costs from increasing volumes were balanced by an upgrade of reserves on some of the newer fields that are put into production, and also by a weaker US dollar versus Norwegian kroner compared to one year ago.

Adjusted operating expenses decreased by more than 20% in the international business segment mainly driven by a stronger Norwegian kroner versus US dollar. Natural gas had adjusted earnings of NOK4 billion this quarter compared to NOK4.8 billion the year before. Net operating income from the processing and transport part of the business was NOK1.8 billion, which is slightly improved compared to last year, and the adjusted earnings from the marketing --- marketing and trading was NOK2.2 billion compared to NOK3.3 billion the year before.

And this reduction within marketing and trading was mainly due to lower internal margins and somewhat weaker trading results from operating in a lower gas price environment. And finally, manufacturing and marketing delivered adjusted earnings of NOK0.4 billion compared to NOK4.2 billion last year. The oil and products trading business were down from NOK3.9 billion to NOK0.7 this quarter.

Last year, we had a quite significant positive currency gain in the quarter, NOK2.2 billion, and in addition there was a much deeper contango curve on the at that time. Energy retail are again showing good progress with the contribution of NOK300 million to our EBIT this quarter.

The manufacturing business continued to show weak results with a loss of NOK0.6 billion compared to plus of NOK0.5 billion the year before, and this is driven, obviously, by the lower refinery margin, and also methanol, weakened methanol prices. So, all in all, our adjusted earnings added up to NOK34.4 billion as mentioned with a corresponding tax rate of 72%.



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

So, then I will move onto comment on our CapEx and exploration expenditures. Our CapEx spent during last year was \$12.4 billion. And that is approximately \$1 billion below the guiding that we gave you approximately one year ago and this number of \$12.4 billion excludes lease capitalizations that we have made to our accounts mainly related to the Peregrino in Brazil.

The main reasons for the lower CapEx is the strict capital discipline and prioritizations of the more marginal projects that we have dealt with during this year, and also some positive effects from developments in the cost environment.

On exploration activities, we spent \$2.7 billion, exactly what we said one year ago. We completed 70 wells, as we said, and have planned, with a discovery rate of a quite impressive 70%. I will come back to our forecast for 2010 on CapEx and exploration later today.

So, now let's take a look at the reserve replacements and our resource base. The reserve replacement ratio for the year is 73%, and this takes the three year average up to 64%. And obviously, this is a significant improvement compared to the 34% that we had one year ago in 2008, but obviously still not satisfactory and we're working hard to grow this ratio.

Based on our pipeline of our new planned projects, our IOR ambitions, which is also very important in growing our resources, and the gradual step up in the booking of our unconventional resources, we are quite confident that the RRR will eventually climb above 100% in the near future. We will also revert to this issue in our presentation later today.

So, let me now look at the cash generation for 2009, and this illustration shows all the cash movements. We generated NOK182 billion in cash from our underlying operations. We paid NOK101 billion in taxes, and we spent NOK75 billion on our CapEx program. The average oil price for 2009 was \$58 per barrel, and this implies that we were cash neutral at around \$55 per barrel, which again is exactly as we told you one year ago and this is obviously then before dividend. Our net debt to capital employed was 27% by the end of the year.

Let's then look at the dividend, the proposed dividend for 2009. Our Board of Directors has decided to propose a cash dividend of NOK6.00 per share for the AGM to take place on the 19th of May this year, and provided that the proposal is accepted by the AGM, the dividend will be paid out to the shareholders or holders of the ordinary share on the 2nd of June, and the dividend will also be made available for our ADR Bank on the same date.

The payout ratio based on IFRS reported net income is 104% for 2009, and the proposed dividend takes the payout ratio as you go back to the IPO in 2001 up to 56%. The dividend yield and if I use the share price of NOK134, it would be 4.5%.

Let me then briefly summarize our 2009 deliveries. Our equity productions came in slightly above the guiding that we gave you and presented one year ago. Our exploration program of NOK2.7 billion delivered a discovery rate of 70%. We spent NOK12.4 billion on CapEx, which is slightly below the guiding. Our cost saving initiatives are on track. We have delivered a strong cash generation, and ended the year with a 27% net debt to capital employed ratio, and the Board of Directors has proposed a dividend of NOK 6.00 per share.

So, all in all, during 2009, Statoil has made consistent and strong deliveries, and as we have promised, and this is both from an operational and from a financial perspective.

So, we will now take the short Q&A session before we continue with the strategy update. So, Lars, well it's yours.



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

QUESTIONS AND ANSWERS

Lars Troen Sorensen - *Statoil ASA - SVP - IR*

Well, thank you very much Eldar. I just wanted to tell the audience on the internet, there's been some questions as to where they can download the presentations from, and if you go to the front page statoil.com, there is a link to the presentation, so you can download them from there.

Any questions from the floor? We'll start with James from Morgan Stanley, and please wait for the microphones.

James Hubbard - *Morgan Stanley - Analyst*

Yes, hi. Just two questions please. On the dividend policy, is now 6 your base, or if the oil price was to go back to sub \$60, say \$50 a barrel for a couple of years, are you saying you will not go below \$60 if it's going to grow no matter what, or it's going to move basically inline as more or less they payout on a long-term basis, but inline with your adjusted earnings, which would seem logical, but there is some ambiguity, because the text kind of implies it's going to grow no matter what.

And then secondly, the cash flow breakeven you just outlined there. If we take onboard the growing percentage of your production, and hence top line is coming from gas, and your CapEx is going up a bit this year, presumably, you've done the calculation. Can we take it at the breakeven for this year is \$60 to \$65 a barrel?

Eldar Saetre - *Statoil ASA - CFO*

Okay, first comment to the dividend policy. It is definitely our firm intention. I've stated in the policy to grow the dividend year-on-year, and that is clear in the policy. Our current view of the long-term underlying performance and our earnings going forward is also reflected in the level that we now established for the dividend going forward. So, our current view is that we can grow the dividend from the level of NOK6.00 per share going forward.

This view is based on our positive view of the long-term underlying earnings as I said, and that stems from our view on the commodity environment, the long term commodity environment both for oil and gas, which we have stated is positive. Also going to introduce the information today that it's clear that we also are continuing with our long-term growth strategy, and we will also seek to carry on with improvements in the organization and improve our margins as such.

So, our intention is to grow the dividend year-on-year also through the normal business cycles of this business, and this is actually the meaning of the concept of long-term in the dividend policy. It cuts through the normal cycle, and this means that we now, in a down cycle, would be willing to use the balance sheet, and also to cut costs to sustain dividend through the downturn.

So, commodity cycles in oil and gas business is a natural thing, it's always going to be there, and we have taken that into account when we have established the level for our dividend going forward. Then, a few comments, I will never use the word guarantee in terms of dividend, but this is our firm intention to grow the dividend from this starting point with a long term perspective cutting through the normal cycles of this industry.

To answer to the question of neutrality and cash neutrality for this year, I mentioned that we for last year were neutral at around \$55 per barrel. And I guess then it's a question of what kind of assumptions you put on a lot of things. If we have indicated to you that the production is going to be sort of like in the same range, as we have seen for the last year, we might come slightly up on the CapEx slightly.

So, I think the main -- if we assume that the downstream business is just being sort of approximately the same environment that we have seen for last year. What we do expect sort of from changes is mainly related to the gas business, and you should



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

remember that in the first half of 2009, we had a quite strong results from our long-term gas prices, from the oil price links, and the delay that we have in our long-term gas contracts related to oil, and that took us into the first half of last year with quite high gas prices.

Now, the lower environment is coming also into the gas prices on a long term contracts, so we expect to see on average lower average gas prices for this year compared to what we saw last year. So, this is why we indicated slightly higher price, cash neutrality price to put it that way for this year compared to last year.

So, we indicate that this might take us up to around \$60 -- I wouldn't climb up to \$65, I would say up to around \$60 in terms of cash breakeven with the assumptions that we have put forward now on CapEx, exploration, production and assuming sort of no significant changes to working capital or the downstream environment, but just taking into account that we expect a lower gas price environment.

Lars Troen Sorensen - Statoil ASA - SVP - IR

Okay, we'll take another question from the floor, Iain Reid, just across the floor there, and while Iain is getting the microphone, let me just introduce next to me, Kaare Thomsen is our Head of Accounting, who has joined us on stage to answer questions together with Eldar.

Iain, please.

Iain Reid - Macquarie Securities - Analyst

Eldar, just a quick question on reserves. Can you kind of indicate what's changed in terms of the booking of reserves from last year? What are the kind of big moving parts which were in there, and what's changed on the resources booking? And maybe, since you're allowed to do it now, could you tell us what the 2P reserves level is now?

Eldar Saetre - Statoil ASA - CFO

Well, what a -- I guess you're referring to the SEC rules and the impact of that. Is that the question?

Iain Reid - Macquarie Securities - Analyst

Yes, which projects in particular?

Eldar Saetre - Statoil ASA - CFO

Oh, I couldn't go into specific projects. What I could comment on is basically that we have seen now grown resource base both in our Norwegian Continental Shelf and international. We have started to book very carefully. We have a demonstration plant in Canada, so for the first time we see some unconventional resources into our resource base, and we think that is going to be a much bigger contributions going forward.

If you refer to the changes that the SEC have implemented, there's really no major implications from those changes into our number. One of them is actually that we can start booking Canada, because they haven't actually produced anything from the demo, but we can use analogs into this, and that's mainly the only place where we have sort of an implication from the new rules into our resource base.



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

On the Norwegian Continental Shelf, that is to a large extent mature province was well defined reservoirs and the impact of a more precise definition of reliable technology, doesn't give a very -- additions to resource base as such. So, this is very much sort of ordinary straightforward changes and adjustments from IOR, a new fields coming into production, and then these developments from the new rules.

Iain Reid - Macquarie Securities - Analyst

Have you booked anything in the Marcellus?

Eldar Saetre - Statoil ASA - CFO

Marcellus, we have started to book basically what we can book on the unconventional gas, it's related to the wells that you have drilled, and the certain circle around those wells, and also wells that you have planned -- firm plans to drill within the next two years. That's what we can book, so it's not big numbers, but we have started to book it. But again, this represents a huge resource base, which will feed into our reserve growth going forward.

Iain Reid - Macquarie Securities - Analyst

(inaudible - microphone inaccessible)

Eldar Saetre - Statoil ASA - CFO

Well, 2P, I'm forbidden to use that word, but what I can say is that in terms of expected --

Iain Reid - Macquarie Securities - Analyst

(inaudible - microphone inaccessible)

Eldar Saetre - Statoil ASA - CFO

Well, we haven't made up a set of data according to what is presented to us, the conditions for defining 2P. We have used our old way of looking at this, which has arrived at what we call the expected, which is quite similar to the 2P. But the expected recoverable resource that we have accessed, and that is at the same level, around 22 billion barrels that we have presented earlier. And that represents approximately 32-33 years of current production, and it's approximately 50% on the Norwegian Continental Shelf and 50% outside of Norway.

Lars Troen Sorensen - Statoil ASA - SVP - IR

Colin Smith.

Colin Smith - ICAP Securities - Analyst

Eldar, it's Colin Smith from ICAP. Just coming back to the dividend again, in terms of the payout that you've got and in terms of long-term underlying earnings, does the concept of a payout ratio still have any meaning for you? I mean, would you like to tell us that 6% represents X of current underlying earnings sort of thing?



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

Can you also comment a little bit about what you think required reinvestment looks like? And finally, I think you mentioned the possibility of share buybacks. It doesn't look to me as though you've got that much space in your balance sheet, and I just wondered under what circumstances you might actually undertake share buybacks. Thank you.

Eldar Saetre - Statoil ASA - CFO

Well, the payout ratio as such, for the future of this dividend, it has relevance, because we still have the policy to have just stated, so it has relevance, but changing the policy going forward, that has, as such, no relevance, but we felt it was important to demonstrate what would have been the impact with the old policy, and that means it takes back you to 104% of that and gives some of the reasoning behind the adjustments to the dividend policy that we have proposed to create more predictability in this number.

When it comes to share buybacks, that is something that we would like to have in our toolbox. It might be that for a given year, we might have the situation that we might want to return more cash to our shareholder than what we can actually put into our view on the underlying earnings. So, if it's something that we might -- would like to have in the toolbox for the future, and therefore we have included that just having it mentioned in the policy.

The Board have not taken a view as to whether they would ask for such a mandate for this year for the AGM, but what we are saying now is that we will -- they are proposing a dividend, cash dividend of the NOK6.00 going forward.

Lars Troen Sorensen - Statoil ASA - SVP - IR

We are actually running out of time for this session, and there will be a much longer Q&A session at the end of the next session. So, if you don't get your question asked or answered in this session, can I ask you to leave it for the next Q&A, because we are actually almost running out of time.

On the internet I've got a number of questions here, they're all directed at the time 2012 and beyond. So, we will sort of save those questions for later. I'm not going to forget these questions, I'll just save them for the next session. This Q&A was generally just about the 4Q and the full year 2009 earnings.

There is one question left on the internet that I will ask Eldar before we end this session and go into the next, and that is from Helge Andre Martinsen at Nordea. Could you please comment on the huge volatility in the item purchase net of inventory variation adjusted found in the INT business segment?

Eldar Saetre - Statoil ASA - CFO

That's why I have the accounting.

Lars Troen Sorensen - Statoil ASA - SVP - IR

I thought so.

Eldar Saetre - Statoil ASA - CFO

And I think even he got surprised.



Feb. 11. 2010 / 12:30PM, STO - Q4 2009 Statoil ASA Earnings Conference Call

Kaare Thomsen - Statoil ASA - Head - Accounting

No, it's -- the purchase in the INT section is depending on some internal matters that in some instances, the INT section has sold direct into the market, and the OTS, the trading organization is more the agent. And if so, then you get also cost there and in some instances, it has gone through OTS.

Lars Troen Sorensen - Statoil ASA - SVP - IR

So, basically just an --

Kaare Thomsen - Statoil ASA - Head - Accounting

Just internal.

Lars Troen Sorensen - Statoil ASA - SVP - IR

Internal allocation between the two, the corporate business unit.

Kaare Thomsen - Statoil ASA - Head - Accounting

It's all eliminated.

Lars Troen Sorensen - Statoil ASA - SVP - IR

Right. Unfortunately, we only have a short 10-minute break now. So, we are unfortunately forced to break now for this particular 4Q session, but we will meet up again in 10 minutes at 1.15 London time, and we'll start the webcast there once again. Thank you for now.

Operator

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

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