BP PLC, Total S.A., And Statoil ASA Downgraded After Oil Price Assumptions Revised And Annual Results Released

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- The weak industry outlook and our Jan. 12, 2016, revision of our oil price assumptions led us to place major European oil and gas companies on CreditWatch with negative implications on Feb. 1, 2016.
- Following the publication of preliminary annual results, we believe these companies' current and prospective core debt coverage metrics are likely to remain below our rating guidelines for two or three years as the industry adjusts to lower prices.
- We are therefore lowering our ratings on BP PLC, Total S.A., and Statoil ASA by one notch and removing them from CreditWatch negative.
- The outlook on BP and Statoil is stable and the outlook on Total is negative.

LONDON (Standard & Poor's) Feb. 22, 2016--Standard & Poor's Ratings Services said today that it had lowered the ratings on three parent companies of major Europe-based integrated oil and gas groups as part of our review of the sector. Specifically, we:
- Lowered the long- and short-term corporate credit ratings on BP PLC to 'A-/A-2' from 'A/A-1' and assigned a stable outlook;
- Lowered the long- and short-term corporate credit ratings on Total S.A. to 'A+/A-1' from 'AA-/A-1+' and assigned a negative outlook; and
- Lowered the long- and short-term corporate credit ratings on Statoil ASA to 'A+/A-1' from 'AA-/A-1+' and assigned a stable outlook. We also lowered the long-term ratings on captive insurer Statoil Forsikring AS to 'A' from 'A+'. The outlook on both entities is stable.
We removed all above ratings from CreditWatch negative, where we had placed them on Feb. 1, 2016 (see "Lower Oil Price Assumptions Prompt Rating Actions On Six Major European Integrated Oil And Gas Companies," published on RatingsDirect.)

The downgrades reflect the oil majors' persistently weak debt coverage measures over 2015-2017 in particular, and meaningful negative discretionary cash flow (DCF) after capital expenditures (capex) and dividends. We note however that Statoil had a much stronger ratio of funds from operations (FFO) to debt in 2015 than BP, Total, or Shell at about 60%, commensurate with its prior rating.

Our review of the sector follows the recent revision of our oil and gas price assumptions (see "S&P Lowers Its Hydrocarbon Price Deck Assumptions On Market Oversupply; Recovery Price Deck Assumptions Also Lowered," published Jan. 12, 2016). These price revisions reflect the meaningful declines in futures curves resulting from the ongoing oversupply in the global oil market. We also note the continuing global reset of production and development costs at lower levels, albeit to different degrees depending on countries and assets.

We have updated our base-case forecasts with both our revised price assumptions and the companies' preliminary year-end results. Actual and forecast financial results in 2015 and 2016 show metrics below our previous rating thresholds, except for Statoil whose metrics were in line with the rating level for 2015 (based on preliminary data). Our analyses explicitly factor in our projections for 2016, 2017, and 2018. Moreover, although we do forecast a recovery over this period, the return of metrics to levels consistent with the previous ratings is no longer likely, in our view.

We see the decision to cut investment and increase debt to facilitate shareholder distributions as negative from a credit perspective, because the reduction in investment will affect future cash-generating assets, although we acknowledge that part of the cuts is a result of cost deflation. Statoil now also has a scrip dividend option (meaning the dividend can be paid in new shares instead of cash), like BP and Total. We note that in contrast with some U.S. peers, these largest European players have neither actually cut declared dividends nor cut capital investment aggressively (although 2016 capex budgets show a material cut).

We note the importance of the majors' portfolio optimization programs (meaning asset disposals) to cover free cash flow shortfalls and limit increases in net debt. However, in addition to the execution risks inherent in disposals, we also see a risk of an increasing number of moderately sized and potentially larger farm-ins and acquisitions as the industry downturn plays out. We believe the gap between potential buyers' and sellers' price expectations, which has typically been wide to date, may narrow as the number of distressed sellers and other transactions rises. Over the coming years, the majors may seek growth from acquisitions to bolster medium- to long-term production, which will otherwise be affected by current capex cuts. Our base case scenarios and ratings do not, however, incorporate any large net-debt funded

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Our overall base-case assumptions for BP, Total, and Statoil include:
• A Brent oil price of $40 per barrel (/bbl) for the remainder of 2016, $45/bbl in 2017, $50/bbl in 2018 and thereafter. This compares with an average of about $52/bbl in 2015.
• A drop in EBITDA in 2016, as sharp price declines are only partly offset by cost-cutting measures and foreign exchange movements. We assume refining margins could be about one-quarter to one-third lower in 2016 than 2015.
• Effective tax rates and payments modestly below 2015 levels for BP and Total. For Statoil, cash and profit-and-loss taxes can be different given payment delays in Norway, as illustrated in 2015 when a significant part of the cash tax was based on 2014 results.
• Capex in 2016 generally about 15%-25% lower than in 2015, as oil companies renegotiate the cost and timing of projects and cut discretionary spending.
• Maintenance of cash dividends, adjusted for any assumed scrip dividend uptake. For Statoil, the introduction of a scrip dividend leads us to assume much lower cash outlays from 2016.
• Contracted asset disposal proceeds and a portion of other indicated disposals. We note that although valuations of oil-linked assets have fallen, the majors in particular have midstream and other assets whose values have not necessarily declined.

Below are details of the rating actions on the individual companies.

BP PLC
The downgrade of BP incorporates the impact of our revised oil price deck and reflects our view that BP's credit metrics in 2016-2017 will be below levels we view as commensurate with the previous rating. Notably, it reflects our view that FFO to debt will be materially below 30% in 2016 and could only gradually improve toward this level in 2017-2018. It further reflects our expectation that BP's prefinancing cash flow will be negative in 2016-2018, as BP continues to pay sizable dividends.

The stable outlook reflects our view that forecast credit metrics leave headroom for the 'A-' rating. We think BP's cost-cutting efforts, divestments, and capex reduction should support neutral free cash flow generation beyond 2016. We expect BP's integrated business model to continue supporting healthy operating performance, which already demonstrated signs of resilience in 2015. We continue to view BP's liquidity as strong, supported by its sizable cash balances, which are sufficient to absorb negative discretionary cash flows for a number of years.

We could lower the rating on BP if adjusted FFO to debt drops to below 25% in 2016 and does not recover toward 30% in 2017. This could happen if prefinancing cash flow (after dividends and divestments) were to be even more negative than we currently expect. This could occur if management's measures to offset market conditions is insufficient, both from the operational and
An upgrade is remote at this stage, and could materialize only if we see a rapid recovery of oil price to well above our longer-term price assumption of $50/bbl in 2018. To support an upgrade we would expect the ratio of FFO to debt to be sustainably in the 35%-40% range, which BP is unlikely to achieve in 2016-2017.

TOTAL S.A.
The downgrade reflects credit ratios that are forecast to remain materially below our threshold for the previous rating over the coming years. We now anticipate that adjusted credit measures such as FFO to debt will be modestly below 45% in both 2015 and 2016, before recovering above that level (which we estimate is the three- and five-year average for this metric) by 2017.

The Total group's operating performance has shown some resilience in 2015, with downstream results partly offsetting upstream declines. Reported net debt actually reduced by $2.2 billion as a result of disposal proceeds of $6.0 billion and hybrid issuance of $5.6 billion. (We give the latter 50% equity credit and add $2.8 billion to debt.) This was important as operating cash flow nonetheless declined 22% in 2015 and is likely to remain weak in 2016 given lower prices and refining margins.

We see Total's liquidity position as strong, improved from adequate previously. This reflects both significant cash balances and bank lines in relation to debt and capex as well as prudent treasury management.

The negative outlook reflects only moderate rating leeway in 2016 and some risk that we might downgrade Total to 'A' in the next 6-18 months.

We could consider a downgrade if FFO to debt metrics weaken below 40% on a sustained basis, factoring in prevailing weak industry conditions. Pressure on the rating would persist if we do not see this metric improve toward 45% over time, in line with assumed improving oil prices (we assume $40/bbl in 2016, $45/bbl in 2017, and $50/bbl in 2018). FFO to debt could fail to improve due to persistently lower hydrocarbon prices, weaker production growth or a lower cash flow contribution from new, high-margin barrels, or weaker operating performance of the non-upstream segments compared with our base-case assumptions.

Rating downside could also arise Total uses more cash for debt-funded acquisitions than it raises through disposal proceeds or if cash dividend payments are higher than we forecast, given our assumption of about 50% scrip uptake.

An outlook revision to stable would likely result from an earlier and sustained recovery in credit metrics to above 45%, especially if cash flow is positive after dividends. This could result from a more-substantial oil price recovery in 2016-2017, if the current global supply-demand imbalance corrects, or if Total raises its production and cash flows from new projects in line
with the company's plan, leading to much higher FFO than under our base case. The outlook revision to stable would be contingent on any higher cash flow generation not being offset by increased capex and shareholder distributions, enabling higher free operating cash flow and discretionary cash flow (DCF).

STATOIL ASA
The downgrade of Statoil reflects our view that its credit metrics in 2016-2018 will be below our previous expectations because of the challenging industry conditions. Under our updated base case, FFO to debt would be about 45% in 2016, gradually increasing towards 50%-55% in 2018. This translates into a five-year weighted average somewhat above 50%, against the 60% that we view as commensurate with the rating given our unchanged assessment of Statoil ASA's strong business risk profile. Additional drivers behind the downgrade include our expectations of largely negative DCF in 2016 and 2017, albeit to a lesser extent than over 2013-2015, owing to still-material although declining (compared to 2015) capex and cash dividends. We anticipate increasing net reported and adjusted debt over 2016-2017.

These drivers have led us to revise the financial risk profile to modest from minimal, and the stand-alone credit profile (SACP) to 'a' from 'a+'. That said, we take into account the various positive measures Statoil has announced, in particular lower capex, the step-up of savings and efficiency measures, and the scrip dividend, similar to measures taken by other players. Under our base case, we assume similar dividends as in 2015, of which 60% will be paid in cash and 40% in new shares. Our strong assessment of the business risk profile is unchanged, as it already incorporates our view of industry cyclical and capital intensity.

The stable outlook reflects that we do not anticipate ratings downside over the next 12-24 months, as we assess that Statoil has significant rating leeway, unlike peers such as Total or Shell, given that its core ratios are comfortably in the modest category. Furthermore, even if we revised our assessment of Statoil's SACP down by another notch to 'a-', the rating would remain unchanged, given an increased uplift for extraordinary state support from the Norwegian government. We continue to view Statoil as a government-related entity with a moderately high likelihood of extraordinary state support.

Rating downside, which we view as highly unlikely, would appear if the weighted-average FFO to debt moves below 40%. This could happen if Statoil makes significant acquisitions or oil and gas prices are weaker than under our base case.

Rating upside would appear if we saw or gained strong confidence that FFO to debt would move toward 60%. This could happen if, for example, cost reductions, efficiency measures, and asset disposals were higher and taxes lower than in our base case. Statoil's credit metrics are highly sensitive to moderate changes in tax rates, owing to a very high tax burden in Norway.

STATOIL FORSIKRING AS
Statoil Forsikring AS is the 100%-owned captive insurance unit of Statoil ASA. Its downgrade reflects that on its parent, and our unchanged view that Statoil Forsikring qualifies as a core captive subsidiary of Statoil ASA. This qualification, coupled with our view that Statoil Forsikring would not receive direct support from the Norwegian government, mean we equalize its rating with the SACP of its parent. Its outlook reflects that on the parent.

RELATED CRITERIA AND RESEARCH

Related Criteria
- General Criteria: Standard & Poor's National And Regional Scale Mapping Tables, Jan. 19, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Key Credit Factors For The Oil Refining And Marketing Industry, March 27, 2014
- Key Credit Factors For The Oil And Gas Exploration And Production Industry, Dec. 12, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology For Crude Oil And Natural Gas Price Assumptions For Corporates And Sovereigns, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research
- Lower Oil Price Assumptions Prompt Rating Actions On Six Major European Integrated Oil And Gas Companies, Feb. 1, 2016

RATINGS LIST
Downgraded; CreditWatch/Outlook Action

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N.B. This list does not include all ratings affected.

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