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London, 09 August 2018 -- Moody's Investors Service ("Moody's") has today upgraded the senior unsecured debt and program ratings of Norwegian oil major Equinor ASA ("Equinor") to Aa2/(P)Aa2 from Aa3/(P)Aa3 and its baseline credit assessment (BCA) to a1 from a2. At the same time, Moody's affirmed Equinor's P-1/(P)P-1 commercial paper and other short-term ratings. The outlook on all ratings is stable.

"Our decision to upgrade Equinor reflects sustained positive momentum in upstream production, profit growth and stronger cash-flow generation on the back of reduced costs and higher oil prices. Equinor has lowered the breakeven oil price of its operations and has reduced the level of capital investments to sustain the production profile which improves its resilience to volatile oil prices," says Sven Reinke, a Moody's Senior Vice President.

RATINGS RATIONALE

Today's upgrade of Equinor's senior unsecured ratings to Aa2 and its BCA to a1 primarily reflects the recovery of Equinor's credit profile driven by production growth, materially reduced operating cost and higher oil prices. Lower capital investments also contributed to the improvement of the company's key credit metrics. Equinor's net adjusted debt/EBITDA metric improved to 1.0x and retained cash flow (RCF)/net adjusted debt coverage rose to 53.8% in LTM June 2018 compared to 2.0x and 36.2%, respectively, at the end of 2016.

Equinor achieved 5% production growth in 2017 and further 1% in H1 2018 and continued to reduce its cost base by $1.3 billion in 2017, which alongside the recovery of oil prices drove its Moody's adjusted EBITDA to $25.3 billion in 2017 and $25.7 billion in LTM H1 2018 compared to $16.0 billion in 2016.

Equinor has adjusted its operations to volatile oil prices. The company lowered the breakeven oil price of its next generation upstream portfolio to $21/bbl and is now free cash flow (FCF) positive at an oil price of under $50/bbl. Based on an oil price of $55/bbl, Moody's expects that the company should remain FCF positive despite the cancellation of the scrip dividend and an increase of the nominal dividend by 4.5%, which will increase dividend payments to $3.1 billion in 2019 compared to $1.5 billion in 2017. Moody's expects that Equinor's net leverage will remain at around the current level of 1.0x net adjusted debt/EBITDA and retained cash flow (RCF)/net adjusted debt coverage will stay at around 50% over the next 12 -- 18 months. Moody's forecast incorporates a view of a continued conservative financial policy and the rating agency does not incorporate any share buy backs in 2018 and 2019 in the $55/bbl oil price scenario.

With 67% of its share capital being held directly by the Norwegian government (and a further 3.4% owned by the National Insurance Fund), Equinor falls within the scope of Moody's rating methodology for government-related issuers (GRIs). Equinor's Aa2 rating incorporates a two-notch credit uplift based on Moody's assumption of "Strong" support from the Government of Norway (Aaa stable). This primarily takes into account Equinor's strategic role in Norway's economy and reputational considerations for the Norwegian State. Equinor is the leading operator in charge of approximately 70% of all oil and gas production on the Norwegian Coastal Shelf (NCS). It is also responsible for marketing the oil and gas production of the State Direct Financial Interest (SDFI), through which the Norwegian state holds a direct financial interest in production licenses on the NCS. Moody's assumption of "Moderate" dependence takes into account Equinor's and Norway's common exposure to volatile oil and gas markets, but also the significant financial flexibility enjoyed by Aaa-rated Norway, which owns the world's largest sovereign wealth fund, and international diversity of Equinor's revenue base.

The Aa2/P-1 ratings incorporate Equinor's solid stand-alone credit profile, which is commensurate with an a1 BCA. This reflects the group's sizeable hydrocarbon reserve base and production profile underpinned by its position as the leading producer on the NCS. In the past few years, significant explorations successes, notably on the NCS, have helped strengthen the group's maturing resource base. In 2017, Equinor's one-year reserve replacement rate as calculated by Moody's (RRR) improved to 157% and its three-year RRR stood at 116% supported by discoveries, revisions driven by higher oil prices, and improved recovery. Equinor has a strong pipeline of projects, which are expected to come on stream in the next few years, including the Johan Sverdrup field, which is forecasted to start production next year, and the Johan Castberg field.
scheduled for 2022. The company proactively manages a higher rate of natural decline and continues to invest in new projects to achieve the indicated 3%-4% organic growth rate in production in 2017-20. While Equinor has limited downstream exposure compared to its integrated peers, Moody's notes that the favorable tax regime in Norway cushions any fall of the oil price and is considered a credit positive.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the company will generate positive FCF and that its key credit metrics remain largely stable at the improved levels of H1 2018. In addition, the stable outlook is supported by Equinor's high degree of business resilience, as well as the conservative management of its financial profile, which is underpinned by its strong liquidity position.

LIQUIDITY POSITION

Equinor's strong liquidity profile is supported by substantial liquid funds held on balance sheet, which amounted to $10.7 billion at the end of H1 2018. The company's debt maturities profile is manageable with $2.2 billion falling due in H2 2018 (including $1.3 billion of commercial paper debt) and $1.3 billion in 2019.

Equinor enjoys diversified sources of funding with access to all relevant markets. It also maintains a $5 billion committed revolving credit facility, which matures in June 2022. This facility is used as back-up for its $5 billion commercial paper programme. The committed credit facility was undrawn and the company had $1.3 billion drawn under the commercial paper programme at the end of June 2018.

WHAT COULD CHANGE THE RATING UP/DOWN

Equinor's rating is unlikely to be upgraded further taking into account the company's business profile with its relatively small downstream operations. However, positive rating pressure could develop over the longer term if Equinor strengthen its business profile and if it retains a strong financial profile with retained cash flow/net debt sustainably above 50%.

Moody's does not expect downward pressure on Equinor's Aa2 rating. However, a downgrade of the ratings could occur as a result of changes to the company's financial policy resulting in a more aggressive balance sheet leveraging, with retained cash flow/net debt sustainably declining to below 50%. In addition, a reassessment of the "Strong" support assumption triggered by the dilution of the Norwegian government's stake in Equinor could reduce the credit uplift based on the methodology for government-related issuers and therefore result in a downgrade of Equinor's rating.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Global Integrated Oil & Gas Industry published in October 2016, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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