Summary:

Statoil ASA

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<tr>
<td>Vulnerable</td>
<td>Highly leveraged</td>
</tr>
<tr>
<td>Excellent</td>
<td>Minimal</td>
</tr>
</tbody>
</table>

CORPORATE CREDIT RATING

A+/Stable/A-1

Rationale

Business Risk: Strong

- Large oil exploration and production (E&P) group, notably as the largest producer on the Norwegian continental shelf.
- Fiscal and political stability in Norway, where most of the group’s production and reserves are based.
- Still limited but improving upstream diversification, notably in the U.S. and more recently in Brazil.
- Strong gas supply position in the European gas market.
- Limited vertical integration compared with larger peers.
- Very high taxes in Norway and other regions of operation.
- Exposure to volatile hydrocarbon prices.

Financial Risk: Intermediate

- Sensitivity of credit metrics to fluctuating profits and oil and gas prices.
- Need for substantial time and capital expenditures (capex) in the industry to replace depleted reserves.
- High dividends, combined with material capex, repeatedly results in negative discretionary cash flow (DCF).
Outlook: Stable

The stable outlook on Norway-based oil and gas producer Statoil ASA reflects that S&P Global Ratings does not anticipate ratings downside over the next 12-24 months. This is because we assess that Statoil has meaningful rating leeway, unlike peers such as Total S.A. or Eni SpA, given that its credit metrics are strong for the current rating. Furthermore, even if we revised down our assessment of Statoil's stand-alone credit profile (SACP) by one notch to 'a-', the rating would remain unchanged, given our assumption of an increased likelihood for extraordinary support from the Norwegian government. We continue to view Statoil as a government-related entity (GRE) with a moderately high likelihood of extraordinary government support given the continued importance of oil and gas in the Norwegian economy.

Downside scenario
Rating downside, which we view as unlikely, would arise if the weighted-average funds from operations (FFO)-to-debt ratio moves below 40%. This could happen if Statoil makes sizable non-producing acquisitions or oil and gas prices are materially weaker than under our base case.

Upside scenario
Rating upside would appear if we saw FFO to debt moving toward 60%. We regard this scenario as unlikely in the next two years, however, notably given Statoil's acquisition in Brazil. Nevertheless, it would be possible if, for example, cost reductions, efficiency measures, and asset disposals were greater and taxes lower than in our base case, combined with higher hydrocarbon prices. Statoil's credit metrics are highly sensitive to moderate changes in tax rates, owing to a very high tax burden in Norway.

Our Base-Case Scenario

Our base-case scenario for Statoil reflects our expectation of low and only gradually recovering oil prices. We believe that Statoil's credit metrics will move parallel to the oil prices, gradually improving from 2016, on the back of management's cost-cutting measures, reduced capex, and the maintenance of the scrip dividend.
Assumptions

• A Brent oil price of $50 per barrel (/bbl) for the rest of 2017 and 2018, and $55/bbl in 2019 and thereafter. Similarly, U.S. Henry Hub gas prices of $2.75 million British Thermal Units (mmBTU) for the rest of 2017, and $3.00 mmBTU in 2018 and thereafter.
• Entitlement production of about 1.8 million barrels of oil equivalent per day (boepd) in 2017, rising toward our estimate of 1.9 million boepd in 2018.
• Gradually improving upstream profitability, including the impact of cost savings, moderately increasing oil and gas prices, and general focus on lower operating expenditure upstream projects with lower break even prices.
• Capex of about $11 billion per year on average.
• Cash dividend of $1.5 billion-$2.0 billion, implying continuation of scrip dividend program until the end of the third quarter of 2017.
• Exploration expense of $1.5 billion.
• No material acquisitions or share buybacks.
• We do not factor in any material asset disposals.

Key Metrics

<table>
<thead>
<tr>
<th></th>
<th>2016a</th>
<th>2017f</th>
<th>2018f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unadjusted FFO (bil. $)</td>
<td>10.7</td>
<td>11.5-12.5</td>
<td>13-14.0</td>
</tr>
<tr>
<td>Unadjusted capex (bil. $)</td>
<td>12.2</td>
<td>About 11.0</td>
<td>About 11.0</td>
</tr>
<tr>
<td>Unadjusted dividends (bil. $)</td>
<td>1.9</td>
<td>2.0-2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Adjusted debt (bil. $)*</td>
<td>30.2</td>
<td>32.0-33.0</td>
<td>32.0-33.0</td>
</tr>
<tr>
<td>Adjusted FFO/Debt (%)</td>
<td>37.4</td>
<td>About 45.0</td>
<td>45.0-50.0</td>
</tr>
</tbody>
</table>

*We adjust debt to include operating lease, pension, asset retirement and guarantee obligations, as well as surplus cash. Please see the reconciliation table and the Financial Risk section for more information on the adjustments. a--Actual. f--Forecast. FFO--Funds from operations.

Business Risk: Strong

Large producer with very low country risk but limited vertical diversification

Statoil is a large producer of hydrocarbons with about 2 million boepd in 2016, and a proven reserve base at about 5.6 billion barrels of oil equivalent at end-2016, translating into a reserve life index of about seven years. Over the past few years, Statoil has made significant new discoveries, most importantly the huge Johan Sverdrup deposit—in which Statoil owns a 40% share—whose peak production is estimated at more than 0.5 million boepd. Expectations of marked production growth over the next few years have been dampened by the drop in oil and gas prices, and the group’s forecast production growth plan (with potential for more than 2.5 million boepd by 2023-2024) bears execution risk.

Statoil is very focused on Norway, but management’s drive for a greater international presence has materialized via several acquisitions over the past decade. Statoil’s expansion strategy has focused less on producing assets and more on longer-term production and reserve replacement, which was the case in its most recent major transaction with Petrobras for the BM-S-8 offshore license in Brazil’s Santos Basin, completed in November 2016. We note that the latter could add 700 million to 1300 million barrels of oil equivalent to Statoil’s reserves, which is significant. We anticipate that the group will maintain its focus on international expansion. We view this as an important rating factor, as it gradually increases diversification, lowers overall tax payments (Norway has a very high tax rate), and offsets the risk emanating from maturing Norwegian fields.
Profitability has been solid in the past, but the drop in oil and gas prices since the second half of 2014 has led to an adjusted return on capital of below 5% in 2016, against close to 17% in 2014. In our base case, we anticipate a recovery to above 10% over the long term. While the EBITDA margin is high, we focus on it as a profitability measure only partly, given the group's sizable tax payments related to its high exposure to Norway. The lower profitability in 2016 is mainly explained by the lower hydrocarbon prices, but has consequently led Statoil and other oil companies to refocus on even more stringent cost control and capex discipline, which we think will translate to stronger profitability in the coming years alongside gradually improving oil and gas prices.

Although Statoil has a strong business risk profile, we still view the volatility in oil and gas prices, and to a lesser extent profits (given high taxes and important fixed costs), to be constraining factors. Equally, sustained high capital intensity in the E&P sector, with the need to replace reserves whose life duration are limited by definition, is an important factor of our assessment, as we consider with with other oil companies. A key differentiator of Statoil from larger peers, in our view, is the limited vertical integration in refining and marketing, that provided significant downside protection in 2015 as refining margins soared. Statoil's integration into refining is fairly limited, with two directly operated refineries--Mongstad in Norway and Kalundborg in Denmark (fully owned), with a total crude processing capacity of about 17.5 million tons per year.

Our rating on Statoil also factors in the ongoing benefits of Statoil's position and status as Norway's national oil group, which enhances the company's credit profile.

**Financial Risk: Intermediate**

Our assessment on Statoil's financial risk profile factors in our expectation that FFO to debt will remain in the 45%-50% range on average, but discretionary cash flow will remain negative. Lower oil prices and the acquisition of 66% of the BM-S-8 offshore license in Brazil for $2.5 billion (half paid in cash) somewhat weakened Statoil's credit metrics for 2016, but they are still well within our range for the current rating. Statoil has a track record of cutting capital spending when needed and applying high discipline and selection to its investments. We anticipate lower capex, with flexibility to adapt to market environment, no major additional acquisitions, portfolio optimization and overall reductions in operating expenditures per barrel to be supportive of our financial risk assessment over the coming 24 months. Although the company's performance in 2016 has been somewhat below our expectations, we believe that Statoil has headroom at the current rating level. Longer-term evolution of credit metrics will also depend on shareholder remuneration policies. At the end of third-quarter 2017, Statoil will be the first of the big oil companies to retire its scrip dividend program, which has helped the company preserve cash over the past two years.

**Liquidity: Strong**

The short-term rating is 'A-1'. We assess Statoil's liquidity position as strong, which reflects its liquidity sources to uses ratio of above 1.5x for the coming 12 months. We also take into account Statoil's historically prudent approach to liquidity management and strong access to European markets.
Government Influence

We consider Statoil ASA to be a GRE as the key player in Norway's strategic hydrocarbon sector and the country's largest taxpayer and industrial employer. The state's ownership now stands at 67%. We believe there is a political consensus for majority state ownership, an important factor for our view of potential government support. In addition, Statoil's SACP and financial policies are, in our view, positively influenced by state ownership.

Our view of a moderately high likelihood of extraordinary government support is based on our assessment of Statoil's:

- Important role for the Norwegian government, which reflects Statoil's dominant position in the Norwegian oil and gas production industry and its substantial tax and dividend payments to the state; and
- Strong link with the Norwegian government, mostly reflecting the state's majority ownership, even if the state is not directly involved in operational decisions.

Ratings Score Snapshot

Related Criteria

- Methodology For Linking Short-Term And Long-Term Ratings, April 7, 2017
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 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 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
- Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10,
Summary: Statoil ASA

2010
• Use Of CreditWatch And Outlooks, Sept. 14, 2009
• 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

• International Oil Majors Test The Limits Of Integration In 2016, Sept. 15, 2016

### Business And Financial Risk Matrix

<table>
<thead>
<tr>
<th>Business Risk Profile</th>
<th>Minimal</th>
<th>Modest</th>
<th>Intermediate</th>
<th>Significant</th>
<th>Aggressive</th>
<th>Highly leveraged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>aaa/aa+</td>
<td>aa</td>
<td>a+/a</td>
<td>a-</td>
<td>bbb</td>
<td>bbb-/bb+</td>
</tr>
<tr>
<td>Strong</td>
<td>aa/aa-</td>
<td>a+/a</td>
<td>a-/bbb+</td>
<td>bbb</td>
<td>bb+</td>
<td>bb</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>a/a-</td>
<td>bbb+</td>
<td>bbb/bbb-</td>
<td>bbb/-/bb+</td>
<td>bb</td>
<td>b+</td>
</tr>
<tr>
<td>Fair</td>
<td>bbb/bbb-</td>
<td>bbb-</td>
<td>bb+</td>
<td>bb</td>
<td>bb-</td>
<td>b</td>
</tr>
<tr>
<td>Weak</td>
<td>bb+</td>
<td>bb+</td>
<td>bb</td>
<td>bb-</td>
<td>b+</td>
<td>b/b-</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>bb-</td>
<td>bb-</td>
<td>bb-/b+</td>
<td>b+</td>
<td>b</td>
<td>b-</td>
</tr>
</tbody>
</table>

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