Research Update:
Statoil Outlook Revised To Positive; 'A+/A-1' Ratings Affirmed

Primary Credit Analyst:
Alexander Griaznov, Moscow (7) 495-783-4109; alexander.griaznov@spglobal.com

Secondary Contact:
Edouard Okasmaa, Stockholm (46) 8-440-5936; edouard.okasmaa@spglobal.com

Table Of Contents

Overview
Rating Action
Rationale
Outlook
Ratings Score Snapshot
Issue Ratings
Related Criteria
Ratings List
Research Update:

Statoil Outlook Revised To Positive; 'A+/A-1' Ratings Affirmed

Overview

- Statoil's cash flow generation in 2017 was stronger than we expected, primarily due to one-off factors, resulting in stronger credit metrics, including funds from operations (FFO) to debt above 60%.
- We believe that Statoil's ability to maintain this ratio in 2018-2019 will depend, apart from market conditions, on management's decisions regarding shareholder distributions and growth.
- We are revising our outlook on Statoil to positive and affirming the 'A+/A-1' ratings.
- The positive outlook reflects the likelihood of an upgrade to 'AA-' if Statoil demonstrates prudence in shareholder remuneration, which would support maintenance of FFO to debt sustainably above 60%.

Rating Action

On Nov. 14, 2017, S&P Global Ratings revised its outlook on Norwegian oil and gas producer Statoil ASA to positive from stable. The 'A+' long-term and 'A-1' short-term corporate credit ratings were affirmed.

Simultaneously, we revised the outlook on Statoil's U.S. subsidiary Statoil US Holdings Inc. to positive from stable, in line with the parent, and affirmed the 'A-/A-2' corporate credit ratings.

We also revised our outlook on Statoil Forsikring AS to positive from stable and affirmed the 'A' issuer credit and financial strength ratings.

Rationale

The rating actions reflect the likelihood that we would raise the long-term rating on Statoil to 'AA-' if the management takes a conservative stance on growth and shareholder remuneration, supporting maintenance of a ratio of funds from operations (FFO) to debt sustainably above 60%.

Statoil has managed to achieve this ratio level already in 2017, earlier than we anticipated, thanks to a number of one-off factors boosting cash flow, including lower cash taxes in Norway, positive working capital, and higher-than-expected oil prices in the second half of the year. In our base-case scenario, we assume slightly lower operating cash flow in 2018, based on our assumption of the $50 per barrel (/bbl) oil price.
Statoil also enjoyed a relatively high (above 40%) uptake on its scrip dividend program over the past 12 months, which also helped it preserve cash. As the scrip program was cancelled from the third quarter of 2017, we assume Statoil will not only pay the full dividend of $3 billion per year, but will also start share buybacks in 2018.

The company has not provided any guidance on the amount of the share buybacks, which will be important for the evolution of the company's credit metrics. In our base case, we assume share buybacks of $1.5 billion-$2 billion per year, which should result in FFO to debt in the 50%-60% range. However, should shareholder remuneration be lower or commence later than we assume, it will have a positive impact on Statoil's credit metrics, which could in turn provide upside to the rating.

In our revised base-case scenario for Statoil we assume:
• A Brent oil price of $50/bbl for the rest of 2017 and 2018, rising to $55/bbl in 2019 and thereafter, in line with our price assumptions.
• Entitlement production of about 2 million barrels of oil equivalent per day (boepd) in 2017-2018, showing material growth compared to 2017. We expect more material production growth beyond 2019, notably with lower breakeven levels, as many new projects come on stream, including the massive Johan Sverdrup field on the Norwegian continental shelf with peak production of 660,000 boepd.
• Gradually improving upstream profitability, including the impact of cost savings, moderately increasing oil and gas prices, and a general focus on lower operating expenditures and upstream projects with lower breakeven prices.
• Capital expenditures (capex) of about $10 billion-$11 billion per year on average.
• Exploration expenses of $1.5 billion.
• Cash dividend of $2.5 billion-$3.0 billion, factoring the cancellation of the scrip dividend program from the third quarter of 2017 and implying the resumption of full cash dividend payment from the second quarter of 2018.
• Share buybacks of $1.5 billion-$2.0 billion annually from 2018.
• No material acquisitions or asset disposals.

Based on these assumptions, we arrive at the following credit metrics:
• FFO to debt of more than 60% at year-end 2017, reducing to 50%-60% in 2018-2019.
• Reported discretionary cash flow after capex and dividends to turn negative in 2018 and 2019.

The rating on Statoil continues to be underpinned by its strong business position as one of the world's largest oil and gas producers with a solid portfolio of new projects. Statoil invests heavily in exploration, and its recent successes have allowed it to improve the life of its reserve base.

The key constraints on the rating, apart from the exposure to volatile oil prices, include very limited downstream operations and weak diversification.
Given the very low country risk in Norway, weak diversification can also be seen as positive, noting the higher exposure of peers to emerging markets. The rating on Statoil also incorporates one notch of uplift from the sovereign rating on Norway, as we believe there is a moderately high likelihood of extraordinary government support. The state's ownership now stands at 67%, and Statoil is the country's largest taxpayer and industrial employer. In addition, our assessment of Statoil's stand-alone credit profile (SACP) and financial policies are, in our view, positively influenced by state ownership.

**Liquidity**

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

Statoil's principal liquidity sources for the 12 months from Sept. 30, 2017, are:
- Cash of $6.3 billion;
- Short-term financial investments of $11.6 billion;
- Committed undrawn bank lines of $5 billion; and
- Cash flow from operations of about $12 billion;

Statoil's principal uses of liquidity over the same period are:
- Debt maturities of $4.2 billion in the next 12 months;
- Cash capex of about $10 billion-$11 billion; and
- Cash dividend of $2.5 billion-$3.0 billion.

**Outlook**

The positive outlook reflects the likelihood we would raise the rating if Statoil's management were to take a conservative stance on financial policy and shareholder remuneration, which would support maintenance of FFO to debt of consistently about 60%. In our base case, we assume that Statoil would likely already achieve this level at the end of 2017 as cash flow has been boosted by lower taxes in Norway and positive working capital movements. However, in 2018 we think this ratio will be 50%-60%, as we project lower operating cash flow based on an average oil price of $50/bbl. We also assume that Statoil will pay a dividend of $3.0 billion and initiate share buybacks of $1.5 billion-$2.0 billion per year in 2018-2019, although the company has not given any guidance on its shareholder remuneration policy.

**Upside scenario**

We could raise the rating on Statoil if it generates neutral to positive cash flow after capex and dividends, supporting maintenance of FFO to debt sustainably above 60%.

An upgrade would also depend on market conditions remaining supportive, with
oil and gas prices remaining in line or being better than our base-case scenario.

**Downside scenario**

We could revise the outlook to stable if management were to prioritize shareholder remuneration over strong cash flow credit metrics by starting aggressive share buybacks, raising dividends, or engaging into large-scale acquisitions, which we do not factor into our base case.

**Ratings Score Snapshot**

Corporate Credit Rating A+/Positive/A-1

Business risk: Strong
- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Strong

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: a
- Likelihood of government support: Moderately high (+1 notch from SACP)

**Issue Ratings**

**Capital Structure**

Statoil's capital structure primarily consists of senior unsecured debt issued or fully and unconditionally guaranteed by the parent.

**Analytical Conclusions**

Statoil's debt is rated 'A+', in line with the corporate credit rating, as no significant elements of subordination risk are present in the capital structure.
Research Update: Statoil Outlook Revised To Positive; 'A+/A-1' Ratings Affirmed

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Oil And Gas Exploration And Production Industry, Dec. 12, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

| Outlook Action; Ratings Affirmed | Statoil ASA |  | From |
|----------------------------------|------------|-----------------|
|                                | Corporate Credit Rating | A+/Positive/A-1 | A+/Stable/A-1 |
|                                | Senior Unsecured | A+ | A+ |
|                                | Commercial Paper | A-1 | A-1 |
|                                | Statoil US Holdings Inc. |  |  |
|                                | Corporate Credit Rating | A-/Positive/A-2 | A-/Stable/A-2 |
|                                | Statoil Forsikring AS |  |  |
|                                | Issuer Credit Rating | A/Positive/-- | A/Stable/-- |
|                                | Local Currency | Financial Strength Rating |  |  |
|                                |  |  |  |  |

WWW.STANDARDANDPOORS.COM/RATINGSDIRECT NOVEMBER 14, 2017 6
Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.