Press release

July 27, 2017

2017 second quarter and first half results

Statoil reports adjusted earnings of USD 3.0 billion and adjusted earnings after tax of USD 1.3 billion in the second quarter of 2017. IFRS net operating income was USD 3.2 billion and the IFRS net income was USD 1.4 billion.

The second quarter was characterised by:

- Solid earnings and strong cash flow. Net debt ratio [5] reduced to 27.5%
- Good operational performance and high regularity. Around 5% production growth expected in 2017
- Project deliveries and efficiency improvements on track

"Our solid financial results and strong cash flow are driven by good operational performance with high production efficiency and continued cost improvements. At oil prices around 50 dollars per barrel, we have generated 4 billion dollars in free cash flow, and reduced our net debt ratio by 8.1 percentage points since the start of the year. We expect to deliver around 5% production growth this year, and at the same time realise an additional one billion dollars in efficiencies," says Eldar Sætre, President and CEO of Statoil ASA.

"Together with the supplier industry, we continue to make strong progress on project development and execution. Gina Krog has started production, and we are progressing Johan Sverdrup and other important projects like Aasta Hansteen, Mariner, Oseberg Vestflanken, Peregrino II, Dudgeon and Hywind. On the NCS, we have received approval for three new projects and submitted one additional plan for development," says Sætre.

"So far this year, we have drilled 14 exploration wells and made nine discoveries. Several of these can quickly be put into profitable production. Our exploration programme in the Barents Sea started with the Kayak discovery and gives us the opportunity to test several new prospects. We expect to drill around 30 exploration wells in 2017. Based on strict prioritisation and efficient drilling operations we are able to reduce our guidance for exploration spending this year to around 1.3 billion dollars," says Sætre.

Adjusted earnings were USD 3.023 billion in the second quarter, up from USD 0.913 billion in the same period in 2016. Adjusted earnings after tax were USD 1.289 billion in the second quarter, up from negative USD 0.028 billion in the same period last year. Higher prices for both oil and gas, solid operational performance with high production, a reversal of provisions in Angola of USD 0.754 billion and continued progress on improvement work contributed to the increase.

IFRS net operating income was USD 3.244 billion in the second quarter compared to USD 0.180 billion in the same period of 2016.
IFRS net income was USD 1.436 billion, up from negative USD 0.302 billion in the same period last year.

Statoil delivered equity production of 1,996 mboe per day in the second quarter, an increase from 1,959 mboe per day in the same period in 2016. The increase was primarily due to strong operational performance, increased gas offtake and ramp-up of new fields. Excluding portfolio changes, the underlying production growth was 3% compared to the second quarter last year.

Adjusted exploration expenses in the quarter were USD 0.224 billion, down from USD 0.423 billion in the second quarter of 2016.

Cash flows provided by operating activities in the first half of 2017 amounted to USD 9.931 billion compared to USD 3.349 billion for the same period last year. Organic capital expenditure was USD 4.5 billion in the first half of 2017. At the end of second quarter, net debt to capital employed [5] was reduced to 27.5%.

The board of directors has decided to maintain a dividend of USD 0.2201 per ordinary share for the second quarter and continue the scrip programme this quarter giving shareholders the option to receive the dividend in cash or newly issued shares in Statoil at a 5% discount.

The twelve-month average Serious incident frequency (SIF) was 0.8 for the twelve months ended 30 June 2017, compared to 0.7 in the same period a year ago.

Q2 2017	Quarters Q1 2017	Q2 2016	Change Q2 on Q2		2017	First half 2016	Change
3,244	4,250	180	>100%	Net operating income (USD million)	7,494	1,240	>100%
3,023	3,313	913	>100%	Adjusted earnings (USD million) [5]	6,336	1,769	>100%
1,436	1,064	(302)	N/A	Net income (USD million)	2,500	309	>100%
1,289	1,114	(28)	N/A	Adjusted earnings after tax (USD million) [5]	2,403	94	>100%
1,996	2,146	1,959	2%	Total equity liquids and gas production (mboe per day) [4]	2,071	2,007	3%
44.5	48.9	39.4	13%	Group average liquids price (USD/bbl) [1]	46.7	33.9	38%

GROUP REVIEW

The second quarter financial results were reflected by higher prices and continued reductions in operational costs. Reduced provisions in the international business positively affected results.

Second quarter 2017

Total equity liquids and gas production [4] was 1,996 mboe per day in the second quarter of 2017, up 2% compared to second quarter of 2016 mainly due to new production from start-up of new fields and lower level of planned maintenance activities. The increase was partially offset by divestments and expected natural decline.

Total entitlement liquids and gas production [3] was slightly up 1% to 1,836 mboe per day in the second quarter 2017 compared to 1,814 mboe per day in the second quarter of 2016 due to the increase in equity production as described above, partially offset by negative effects from production sharing agreements (PSA)[4] and US royalties. The effects from PSA and US royalties were 160 mboe per day in the second quarter of 2017 compared to 145 mboe per day in the second quarter of 2016.

	Quarters		Change	Condensed income statement under IFRS		First half	
Q2 2017	Q1 2017	Q2 2016	Q2 on Q2	(unaudited, in USD million)	2017	2016	Change
14,935	15,528	10,895	37%	Total revenues and other income	**30,463**	21,010	45%
(6,857)	(6,466)	(5,251)	31%	Purchases [net of inventory variation]	**(13,323)**	(9,421)	41%
(2,210)	(2,642)	(2,172)	2%	Operating and administrative expenses	**(4,852)**	(4,667)	4%
(2,312)	(1,943)	(2,783)	(17%)	Depreciation, amortisation and net impairment losses	**(4,255)**	(4,822)	(12%)
(312)	(227)	(509)	(39%)	Exploration expenses	**(539)**	(860)	(37%)
3,244	4,250	180	>100%	Net operating income	**7,494**	1,240	>100%
1,436	1,064	(302)	N/A	Net income	**2,500**	309	>100%

Net operating income was USD 3,244 million in the second quarter of 2017, compared to net operating income of USD 180 million in the second quarter of 2016. The significant increase was primarily due to higher prices for gas, increased fair value of derivatives and higher revenues due to a reversal of provisions related to our operations in Angola of USD 754 million (see note 8 Provisions to the Financial statements). Higher liquids prices and reduced depreciation and exploration costs contributed to the increase.

In addition, net operating income was positively affected by changes in fair value of derivatives and inventory hedge contracts of USD 198 million, and negatively impacted by net impairment of signature bonus of USD 87 million.

In the second quarter of 2016, net operating income was negatively affected by changes in the fair value of derivatives of USD 342 million and net impairment charges of USD 275 million mainly related to a conventional offshore asset in the Gulf of Mexico, and was positively impacted by gain on sale of assets of USD 119 million.

Adjusted operating and administrative expenses decreased by 2% to USD 2,164 million in the second quarter of 2017. The reduction was primarily due to divestment of assets, reduced transportation expenses and effects of the on-going cost improvement initiatives on operation and maintenance costs. The decrease was partially offset by operating costs from new fields coming on stream.

Adjusted depreciation expenses decreased by 10% to USD 2,307 million in the second quarter of 2017, mainly because of increased proved reserves estimates, lower depreciation basis due to impairments of assets in previous periods and divestments. Production ramp-up and start-up of new fields partially offset the decrease.

Adjusted exploration expenses decreased by USD 199 million to USD 224 million in the second quarter of 2017 mainly due to a lower portion of capitalised expenditures from earlier years being expensed and lower exploration activity.

After total adjustments of net USD 220 million to net operating income, **Adjusted earnings** [5] were USD 3,023 million in the second quarter of 2017, up from USD 913 million in the second quarter of 2016.

Q2 2017	Quarters Q1 2017	Q2 2016	Change Q2 on Q2	Adjusted earnings (in USD million)	2017	First half 2016	Change
14,664	14,571	11,291	30%	Adjusted total revenues and other income	29,235	21,470	36%
(6,946)	(6,400)	(5,192)	34%	Adjusted purchases [6]	(13,347)	(9,416)	42%
(2,164)	(2,274)	(2,203)	(2%)	Adjusted operating and administrative expenses	(4,437)	(4,603)	(4%)
(2,307)	(2,382)	(2,560)	(10%)	Adjusted depreciation expenses	(4,689)	(4,979)	(6%)
(224)	(202)	(423)	(47%)	Adjusted exploration expenses	(426)	(703)	(39%)
3,023	3,313	913	>100%	Adjusted earnings [5]	6,336	1,769	>100%
1,289	1,114	(28)	N/A	Adjusted earnings after tax [5]	2,403	94	>100%

Adjusted earnings after tax [5] were USD 1,289 million in the second quarter of 2017, which reflects an effective tax rate on adjusted earnings of 57.4%, compared to 103.1% in the second quarter of 2016. The reduction in effective tax rate was mainly due to reversal of provisions related to Angola as described in note 8 Provisions to the Financial statements. Relatively lower losses in entities with lower than average tax rates or entities without recognised deferred tax assets, added to the reduction in tax rate.

Total cash flows were reduced by USD 603 million compared to the second quarter of 2016.

Cash flows provided by operating activities were increased by USD 2,818 million compared to the second quarter of 2016. The increase was mainly due to increased liquids and gas prices and a reduction in working capital in the current period compared to an increase in the second quarter of last year.

Cash flows used in investing activities were increased by USD 2,219 million compared to the second quarter of 2016. The increase was mainly due to financial investments made in the second quarter, partially offset by lower capital expenditures

Cash flows used in financing activities were increased by USD 1,202 million compared to the second quarter of 2016. The increase was mainly due to decreased cash flow from collateral related to derivatives and two dividends in the second quarter of 2017 compared to one dividend in the second quarter of 2016 (see note 7 Dividends to the Financial statements).

Free cash flow [5] in the second quarter of 2017 was USD 465 million, an increase of USD 2,236 million compared to the second quarter of 2016 mainly due to to increased liquids and gas prices and decreased capital expenditures.

First half 2017

Net operating income was USD 7,494 million in the first half of 2017 compared to USD 1,240 million in the first half of 2016. The significant increase was primarily driven by higher prices for both liquids and gas and increased volumes of gas. Higher revenues due to reversal of provisions related to our operations in Angola of USD 754 million, higher net impairment reversals and lower operational costs added to the increase.

In addition, net operating income in the first half of 2017 was positively impacted by changes in fair value of derivatives and inventory hedge contracts of USD 1,029 million and net reversal of impairments of USD 321 million. Net operating income was negatively impacted by losses from sale of assets of USD 388 million.

In the first half of 2016, net operating income was negatively impacted by changes in fair value of derivatives and inventory hedge contracts of USD 492 million, and positively impacted by gain on sale of assets of USD 119 million.

Adjusted operating and administrative expenses decreased by 4% to USD 4,437 million in the first half of 2017, mainly due to portfolio changes and reduced transportation cost. The decreases were partially offset by higher expenses related to royalties and new fields coming on stream.

Adjusted depreciation expenses decreased by 6% to USD 4,689 million in the first half of 2017, mainly due to net increase in proved reserves estimates on several fields and lower depreciation basis due to impairments of assets in previous periods. The decreases were partially offset by increased depreciation from start-up and ramp-up of new fields.

Adjusted exploration expenses decreased by USD 277 million to USD 426 million in the first half of 2017, primarily due to a lower portion of expenditures capitalised in previous years being expensed in the first half of 2016. Lower exploration activity and less expensive wells drilled in the first half of 2017 added to the reduction, partially offset by a lower capitalisation rate.

After total adjustments of USD 1,158 million to net operating income, **Adjusted earnings** were USD 6,336 million in the first half of 2017, significantly up from the first half of 2016 when adjusted earnings were USD 1,769 million.

Adjusted earnings after tax were USD 2,403 million in the first half of 2017, compared to USD 94 million in the first half of 2016. The effective tax rate on adjusted earnings was 62.1%, compared to an effective tax rate of 94.7% in the first half of 2016. The reduction in effective tax rate was mainly due to reversal of provisions related to Angola and relatively reduced losses in entities with lower than average tax rates or entities without recognised deferred tax assets.

Total cash flows increased by USD 1,788 million compared to the first half of 2016.

Cash flows provided by operating activities were increased by USD 6,582 million compared to the first half of 2016. The increase was mainly due to increased liquids and gas prices, and a reduction in working capital in the current period compared to an increase in the first half last year.

Cash flows used in investing activities were increased by USD 3,801 million compared to the first half of 2016. The increase was mainly due to financial investments, increased proceeds from sale of assets mainly related to the divestment of the Kai Kos Dehseh (KKD) oil sands projects in first quarter, partially offset by lower capital expenditures.

Cash flows used in financing activities were increased by USD 993 million compared to the first half of 2016. The increase was mainly due to decreased cash flow from collateral related to derivatives, partially offset by decreased cash dividend due to two scrip dividends in the first half of 2017 compared to one scrip dividend and one non-scrip dividend in the first half of 2016 (see note 7 Dividends to the Financial statements).

Free cash flow [5] in the first half of 2017 was USD 4,026 million, an increase of USD 7,180 million compared to the first half of 2016, mainly due to increased liquids and gas prices and decreased capital expenditures.

OUTLOOK

- **Organic capital expenditures** [5] for 2017 (i.e. excluding acquisitions, capital leases and other investments with significant different cash flow pattern) are estimated at around USD 11 billion
- Statoil intends to continue to mature its large portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.3 billion for 2017, excluding signature bonuses
- Statoil expects to achieve an additional USD 1 billion in **efficiency improvements** in 2017 with a total of USD 4.2 billion
- Statoil's ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2016 - 2020, **organic production growth** [7] is expected to come from new projects resulting in around 3% CAGR (Compound Annual Growth Rate)
- The **organic production** for 2017 is estimated to be around 5% above the 2016 level
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 50 mboe per day in the third quarter of 2017. In total, maintenance is estimated to reduce equity production by around 30 mboe per day for the full fiscal year 2017
- **Indicative effects from Production Sharing Agreement (PSA)** [4] **and US royalties** in 2017 are estimated to be around 150 mboe per day based on an oil price of USD 40 per barrel and 165 mboe per day based on an oil price of USD 70 per barrel
- **Deferral of production** to create future value, gas off-take, timing of new capacity coming on stream and operational regularity represent the most significant risks related to the foregoing production guidance

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. For further information, see section Forward-Looking Statements.

References

To see end notes referenced in main table and text please download our complete report from our website - http://www.statoil.com/en/InvestorCentre/QuarterlyResults/Pages/default.aspx

Further information from:

Investor relations
Peter Hutton, Senior vice president Investor relations, +44 7881 918 792 (mobile)
Morten Sven Johannessen, vice president Investor Relations North America tel +12035702524 (mobile)

Press
Bård Glad Pedersen, vice president Media relations, +47 918 01 791 (mobile)