Press release

October 26, 2017

2017 third quarter & first nine months results

Statoil reports adjusted earnings of USD 2.3 billion and USD 0.8 billion after tax in the third quarter of 2017. IFRS net operating income was USD 1.1 billion and the IFRS net income was negative USD 0.5 billion.

The third quarter was characterised by:

- Solid earnings and underlying cash flow. Stable net debt ratio [5] at 27.8%
- Good operational performance. Expected production growth [7] in 2017 increased to around 6%
- Project deliveries and efficiency improvements on track. Capex guidance reduced to around USD 10 billion for 2017

“Our solid earnings and underlying cash flow from operations are driven by good operational performance with high production and continued efficiency improvements. In the quarter, we delivered 15% production growth and 11% reduction in underlying operating cost per barrel. In addition, we see strong contribution from our liquids trading and refining business,” says Eldar Sætre, President and CEO of Statoil ASA.

“With an oil price below 52 dollars per barrel, we have generated 3.6 billion dollars in free cash flow so far this year, based on good contributions from all business segments. This has further strengthened our financial position,” says Eldar Sætre.

“We continue to realise efficiency improvements and deliver strong progress on project development and execution. We reduce our organic capex guidance for 2017 by 1 billion dollars, to around 10 billion dollars. This is the result of hard work from the organisation, in close collaboration with our suppliers and partners, and strict capital discipline. We are getting more for less,” says Eldar Sætre.

Adjusted earnings [5] were USD 2.3 billion in the third quarter, up from USD 0.6 billion in the same period in 2016. Adjusted earnings after tax [5] were USD 0.8 billion in the third quarter, up from negative USD 0.3 billion in the same period last year. Higher prices for both oil and gas, solid operational performance with high production, strong liquids trading and refinery margins contributed to the increase.

IFRS net operating income was USD 1.1 billion in the third quarter compared to USD 0.7 billion in the same period of 2016. Net operating income was impacted by net impairments charges of USD 0.8 billion, mainly related to an unconventional onshore asset in North America of USD 0.9 billion, triggered by lower than expected production. IFRS net income was negative USD 0.5 billion, down from negative USD 0.4 billion in the same period last year.

Statoil delivered equity production of 2,045 mboe per day in the third quarter, an increase from 1,805 mboe per day in the same period in 2016. The increase was primarily due to increased flexible gas production due to higher prices, lower turnaround activity, ramp-up of new fields, additional well capacity, and continued strong operational performance. Adjusted for portfolio changes, the underlying production growth was 15% compared to the third quarter last year.

Adjusted exploration expenses in the quarter were USD 0.4 billion, down from USD 0.6 billion in the third quarter of 2016.

Cash flows provided by operating activities before tax amounted to USD 14.9 billion in the first nine months of 2017 compared to USD 9.9 billion for the same period last year. Organic capital expenditure was USD 6.7 billion in the first nine months of 2017. At the end of third quarter, net debt to capital employed [5] was 27.8%.

The board of directors has decided to maintain a dividend of USD 0.2201 per ordinary share for the third 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 0.7 for the twelve months ended 30 September 2017, compared to 0.8 in the same period a year ago.

With effect as of the third quarter 2017, segment names have been changed for the reporting segments DPN and DPI. New names are Exploration and Production Norway (E&P Norway) and Exploration and Production International (E&P International), respectively. There are no changes to other reporting segments, and operating segments' names remain unchanged.

Quarters			Change		First nine months		
Q3 2017	Q2 2017	Q3 2016	Q3 on Q3		2017	2016	Change
1,095	3,244	737	48%	Net operating income (USD million)	**8,588**	1,977	>100%
2,346	3,023	636	>100%	Adjusted earnings (USD million) [5]	**8,682**	2,406	>100%
(478)	1,436	(427)	(12%)	Net income (USD million)	**2,022**	(117)	N/A
819	1,289	(261)	N/A	Adjusted earnings after tax (USD million) [5]	**3,222**	(167)	N/A
2,045	1,996	1,805	13%	Total equity liquids and gas production (mboe per day) [4]	**2,062**	1,939	6%
47.0	44.5	40.0	18%	Group average liquids price (USD/bbl) [1]	**46.8**	35.9	30%

GROUP REVIEW

Third quarter 2017

Total equity liquids and gas production [4] was 2,045 mboe per day in the third quarter of 2017, up 13% compared to third quarter of 2016 mainly due to increased flexible gas production on the Norwegian continental shelf (NCS) because of higher prices. Lower level of planned maintenance activities, higher production efficiency and new production from start-up and ramp-up of new fields added to the increase, and was partially offset by expected natural decline and divestments.

Total entitlement liquids and gas production [3] was up 14% to 1,883 mboe per day in the third quarter of 2017 compared to 1,651 mboe per day in the third 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 [4]. The effects from PSA and US royalties were 162 mboe per day in the third quarter of 2017 compared to 154 mboe per day in the third quarter of 2016.

Q3 2017	Quarters Q2 2017	Q3 2016	Change Q3 on Q3	Condensed income statement under IFRS (unaudited, in USD million)	First nine months 2017	2016	Change
13,609	14,935	12,106	12%	Total revenues and other income	**44,073**	33,117	33%
(6,475)	(6,857)	(5,793)	12%	Purchases [net of inventory variation]	**(19,798)**	(15,215)	30%
(2,216)	(2,210)	(2,453)	(10%)	Operating and administrative expenses	**(7,068)**	(7,120)	(1%)
(3,096)	(2,312)	(2,466)	26%	Depreciation, amortisation and net impairment losses	**(7,352)**	(7,289)	1%
(727)	(312)	(656)	11%	Exploration expenses	**(1,266)**	(1,516)	(16%)
1,095	3,244	737	48%	Net operating income	**8,588**	1,977	>100%
(478)	1,436	(427)	(12%)	Net income	**2,022**	(117)	N/A

Net operating income was USD 1,095 million in the third quarter of 2017, compared to net operating income of USD 737 million in the third quarter of 2016. The 48% increase was primarily due to higher prices, both for liquids and gas. Also, increased volumes of gas sold and higher margins in processing added to the increase. Higher net impairment charges partially offset the increase in net operating income. The increase in impairment charges was mainly driven by an impairment of an unconventional onshore asset in North America of USD 856 million in the third quarter of 2017, triggered by lower than expected production (see note 2 and 6 to the Financial statements). Net operating income was also impacted by higher depreciation costs from enhanced production.

In addition to the effect from net impairment charges of USD 830 million in the third quarter of 2017, net operating income was negatively affected by changes in fair value of derivatives and inventory hedge contracts of USD 525 million. In the third quarter of 2016, net operating income was negatively affected by net impairment charges of USD 53 million and positively affected by changes in the fair value of derivatives of USD 138 million.

Q3 2017	Quarters Q2 2017	Q3 2016	Change Q3 on Q3	Adjusted earnings (in USD million)	First nine months 2017	2016	Change
14,092	14,664	11,862	19%	Adjusted total revenues and other income	**43,327**	33,332	30%
(6,515)	(6,946)	(5,905)	10%	Adjusted purchases [6]	**(19,862)**	(15,321)	30%
(2,238)	(2,164)	(2,249)	(1%)	Adjusted operating and administrative expenses	**(6,675)**	(6,852)	(3%)
(2,577)	(2,307)	(2,490)	4%	Adjusted depreciation expenses	**(7,266)**	(7,468)	(3%)
(416)	(224)	(581)	(28%)	Adjusted exploration expenses	**(842)**	(1,284)	(34%)
2,346	3,023	636	>100%	Adjusted earnings [5]	**8,682**	2,406	>100%
819	1,289	(261)	N/A	Adjusted earnings after tax [5]	**3,222**	(167)	N/A

The development in **Adjusted operating and administrative expenses** was almost flat in the third quarter of 2017, compared to the third quarter of 2016. Decreased operating costs from portfolio changes, reduced provision for future asset retirement costs and reduced transportation expenses, were offset by new fields coming on stream and effects from the NOK/USD exchange rate development.

Adjusted depreciation expenses increased by 4% to USD 2,577 million in the third quarter of 2017, mainly due to production start-up and ramp-up of new fields, partially offset by increased proved reserve estimates and lower depreciation basis due to impairments of assets in previous periods.

Adjusted exploration expenses decreased by USD 165 million to USD 416 million in the third quarter of 2017 mainly due to a lower portion of capitalised expenditures from earlier years being expensed, partially offset by higher exploration activity and more expensive wells being drilled.

After total adjustments of net USD 1,252 million to net operating income, **Adjusted earnings** [5] were USD 2,346 million in the third quarter of 2017, up from USD 636 million in the third quarter of 2016.

Adjusted earnings after tax [5] were USD 819 million in the third quarter of 2017, which reflects an effective tax rate on adjusted earnings of 65.1%, compared to 140.9% in the third quarter of 2016. The reduction in effective tax rate was mainly due to lower losses in third quarter of 2017 compared to third quarter of 2016 in entities with lower than average tax rates or in entities without recognised deferred tax assets.

Total cash flows were reduced by USD 225 million compared to the third quarter of 2016.

Cash flows provided by operating activities were reduced by USD 885 million compared to the third quarter of 2016. The decrease was mainly due to increased tax payments and changes in working capital offset by increased liquids and gas prices compared to the third quarter of last year.

Cash flows used in investing activities were reduced by USD 1,774 million compared to the third quarter of 2016. The decrease was mainly due to reduced financial investments offset by reduced proceeds from sale of assets.

Cash flows used in financing activities were increased by USD 1,114 million compared to the third quarter of 2016. The increase was mainly due to repayment of finance debt.

Free cash flow [5] in the third quarter of 2017 was negative USD 418 million compared to USD 131 million in the third quarter of 2016 mainly due to increased liquids and gas prices offset by increased tax payments and reduced proceeds from sale of assets.

First nine months 2017

Net operating income was USD 8,588 million in the first nine months of 2017 compared to USD 1,977 million in the first nine months of 2016. The significant increase was primarily driven by higher prices for both liquids and gas and increased volumes of gas sold. Increased revenues due to a reversal of provisions related to our operations in Angola in the second quarter also added to the increase, partially offset by reduced exploration expenses.

In addition, net operating income in the first nine months of 2017 was positively impacted by changes in fair value of derivatives and inventory hedge contracts of USD 504 million. Net operating income was negatively impacted by net impairment charges of USD 511 million, heavily influenced by an impairment of an unconventional onshore asset in North America in the third quarter (see note 2 and 6 to the Financial statements), and losses from sale of assets of USD 388 million.

In the first nine months of 2016, net operating income was negatively impacted by changes in fair value of derivatives and inventory hedge contracts of USD 333 million and net impairment charges of USD 20 million. Gain on sale of assets of USD 151 million mainly related to the divestment of the Edvard Grieg field had a positive impact on net operating income in the first nine months of 2016.

Adjusted operating and administrative expenses decreased by 3% to USD 6,675 million in the first nine months of 2017, mainly due to portfolio changes, reduced provisions for future asset retirement costs and lower idle rig costs. The decreases were partially offset by higher expenses related new fields coming on stream.

Adjusted depreciation expenses decreased by 3% to USD 7,266 million in the first nine months of 2017, mainly due to net increase in proved reserves estimates on several fields. Lower depreciation basis due to impairments of assets in previous periods added to the decrease, partially offset by higher depreciation costs due to start-up and ramp-up of new fields.

Adjusted exploration expenses decreased by USD 442 million to USD 842 million, primarily due to a lower portion of expenditures capitalised in previous years being expensed in the first nine months of 2017 compared to the same period in 2016. Exploration activity was higher in the first nine months of 2017, however, as the wells drilled in the first nine months of 2017 were less expensive, exploration expenditures were also lower and were only partially offset by a lower capitalisation rate.

After total adjustments of USD 94 million to net operating income, **Adjusted earnings** [5] were USD 8,682 million in the first nine months of 2017, significantly up from the first nine months of 2016 when adjusted earnings were USD 2,406 million.

Adjusted earnings after tax [5] were USD 3,222 million for the first nine months of 2017, compared to negative USD 167 million in the first nine months of 2016. The effective tax rate on adjusted earnings was 62.9%, compared to an effective tax rate of 107.0% in the first nine months of 2016. The reduction in effective tax rate was mainly due to reversal of provisions related to our operations in Angola in the second quarter of 2017, and lower losses in the first nine months of 2017 compared to the same period in 2016 in entities with lower than average tax rates or in entities without recognised deferred tax assets.

Total cash flows increased by USD 1,562 million compared to the first nine months of 2016.

Cash flows provided by operating activities were increased by USD 5,697 million compared to the first nine months 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 the first nine months last year.

Cash flows used in investing activities were increased by USD 2,027 million compared to the first nine months of 2016. The increase was mainly due to increased financial investments partially offset by lower capital expenditures.

Cash flows used in financing activities were increased by USD 2,108 million compared to the first nine months of 2016. The increase was mainly due to repayment of finance debt and decreased cash flow from collateral related to derivatives, partially offset by decreased cash dividend due to the scrip programme.

Free cash flow [5] in the first nine months of 2017 was USD 3,609 million compared to negative USD 3,023 million in the first nine months of 2016. The increase was mainly due to higher 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 10 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 for 2017
- 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** [7] for 2017 is estimated to be around 6% above the 2016 level
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 25 mboe per day in the fourth 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** [4] 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

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