Press release

7 February, 2017

2016 fourth quarter results

Statoil reports adjusted earnings of USD 1.664 billion and a negative IFRS net operating income of USD 1.897 billion in the fourth quarter of 2016. The IFRS net income was negative USD 2.785 billion.

The fourth quarter results were characterised by:

- Solid results from the Norwegian continental shelf with high production regularity and the lowest cost level in a decade
- Strong marketing and trading results
- Negative results from the international segment, impacted by expensed exploration wells and high maintenance activity
- Cost improvements of USD 3.2 billion, USD 700 million above target
- Solid cashflow, around USD 900 million positive after taxes paid, dividend and organic investments
- High impairment charges, mainly as a result of reduced long term price assumptions

"In the current price environment, we delivered solid financial results from our Norwegian operations and from our marketing and trading activity. Our result was impacted by the negative result from our international operations due to expensed exploration wells, high maintenance activity and impairment charges. We delivered strong production and solid operational performance across all segments in the quarter", says Eldar Sætre, President and CEO of Statoil ASA.

"We achieved strong results from our improvement programme, 700 million dollars above our target of 2.5 billion dollars in annual savings. These are lasting effects, and we target an additional 1 billion dollars in 2017", says Sætre.

Adjusted earnings were USD 1.664 billion in the fourth quarter, down 6% from USD 1.778 billion in the same period in 2015. In the quarter we have expensed exploration wells capitalised in previous periods in the amount of USD 260 million, contributing to the reduction together with lower European gas prices. Higher liquids prices, strong delivery on the improvement programme and solid operational performance contributed positively to the results. Net operating income was negative USD 1.897 billion in the fourth quarter compared to positive USD 152 million in the same period of 2015. The result was impacted by USD 2.3 billion in net impairment charges mainly due to reduced long term price assumptions.

Adjusted earnings after tax were negative USD 40 million in the fourth quarter, down from positive USD 185 million in the same period last year.

Statoil delivered equity production of 2,095 mboe per day in the fourth quarter compared to 2,046 mboe per day in the same period in 2015. The increase was primarily due to ramp-up of new fields and strong operational performance. Excluding divestments, the underlying production growth was 2% compared to the fourth quarter last year.

As of year-end 2016, Statoil had completed 23 exploration wells. Adjusted exploration expenses in the quarter were USD 607 million, up from USD 490 million in the fourth quarter of 2015.

Cash flow from operations amounted to USD 10.7 billion after taxes paid for the full year of 2016 compared to USD 12.3 billion last year. Organic capital expenditure was reduced to USD 10.1 billion in 2016 due to improvement programme and strict capital discipline. Net debt to capital employed was 35.6% at year-end. In the fourth quarter the net debt ratio was impacted by impairments, currency effects, increase in working capital to capture higher margins, and the acquisition of BM-S-8 licence in Brazil.

For the full year 2016, the IFRS net operating income was USD 80 million and adjusted earnings were USD 4.070 billion. IFRS net income for the year was negative USD 2.902 billion.

The board of directors will propose to the annual general meeting (AGM) to maintain a dividend of USD 0.2201 per ordinary share for the fourth quarter, and continue the scrip programme giving shareholders the option to receive the dividend for the fourth quarter in cash or newly issued shares in Statoil at a 5% discount.

The twelve month average Serious incident frequency (SIF) was 0.8 at year-end 2016, compared to 0.6 last year. Statoil has presented investigation reports following serious incidents in the quarter and initiated measures to improve safety results.

Capital markets update

Today, Statoil presents its strategy to capitalise on high value opportunities to the capital market, focusing on three priorities:

- Investing in our next generation portfolio with radically improved break evens
- Maintaining financial capacity, with a clear funding visibility and the ability to be cash flow positive at USD 50/boe in 2017
- Pursuing our sharpened high value, low carbon strategy

Statoil has improved average break even for its next generation portfolio with planned start-up before 2022 to USD 27/boe with an average internal rate of return (IRR) of 25%, assuming USD 70/boe. Recoverable resources from this portfolio are 3.2 billion boe, and will deliver high value barrels and cash flow growth. For 2017 Statoil targets additional improvements of USD 1 billion on top of the already achieved USD 3.2 billion.

“We have reset our cost base, transformed our opportunity set, and we continue to chase improvements. We have the financial capacity and are ready to invest in our next generation portfolio with radically improved break evens. With a sharpened high value, low carbon strategy, Statoil is well positioned for the long term and even more value driven in everything we do”, says Sætre.

Statoil has set clear principles for development of a distinct and competitive portfolio. Statoil will develop long-term value on the Norwegian continental shelf, deepen in core areas and develop new growth options internationally, and grow value creation in its marketing and midstream operations. Statoil is one of the world’s most carbon-efficient producers of oil and gas, and will develop its low carbon advantage further. In addition, Statoil is creating a material industrial position within new energy, with the potential to constitute around 15-20% of investments by 2030.

Furthermore, Statoil announces its updated outlook for 2017-2020:

- Statoil will invest around USD 11 billion organically in 2017
- Statoil estimates 4-5% production growth to 2017 from rebased 2016 production and organic annual production growth of around 3% from 2016 to 2020
- The exploration activity in 2017 will be around USD 1.5 billion

Quarters			Change		Full year		
Q4 2016	Q3 2016	Q4 2015	Q4 on Q4		2016	2015	Change
(1,897)	737	152	N/A	Net operating income (USD million)	**80**	1,366	(94%)
1,664	636	1,778	(6%)	Adjusted earnings (USD million) [5]	**4,070**	9,633	(58%)
(2,785)	(427)	(1,122)	>(100%)	Net income (USD million)	**(2,902)**	(5,169)	44%
(40)	(261)	185	N/A	Adjusted earnings after tax (USD million) [5]	**(208)**	2,465	N/A
2,095	1,805	2,046	2%	Total equity liquids and gas production (mboe per day) [4]	**1,978**	1,971	0%
44	40	38	14%	Group average liquids price (USD/bbl) [1]	**38**	46	(18%)

FOURTH QUARTER 2016 GROUP REVIEW

Solid operational performance and strong deliveries on the improvement programme contributed positively to the fourth quarter financial results. The results were impacted positively by the development in oil price and marketing and trading results, while the reduced European gas prices and significant impairments due to revision of long-term price assumptions, impacted the results negatively.

Total equity liquids and gas production [4] was 2,095 mboe per day in the fourth quarter of 2016, up 2% compared to fourth quarter of 2015 mainly due to new production from ramp-up and start-up on various fields, effects from redetermination and stronger operational performance. Higher planned maintenance activity and expected natural decline partially offset the increase.

Total entitlement liquids and gas production [3] was up by 1% to 1,934 mboe per day compared to 1,921 mboe per day in the fourth quarter of 2015 due to the increase in equity production as described above, partially offset by a negative effect from production sharing agreements (PSA effect) The PSA effect was 122 mboe per day in the fourth quarter of 2016 compared to 83 mboe per day in the fourth quarter of 2015.

	Quarters					Full year	
Q4 2016	**Q3 2016**	**Q4 2015**	**Change Q4 on Q4**	**Condensed income statement under IFRS (unaudited, in USD million)**	**2016**	**2015**	**Change**
12,756	12,106	13,093	(3%)	Total revenues and other income	**45,873**	59,642	(23%)
(6,290)	(5,793)	(5,974)	5%	Purchases [net of inventory variation]	**(21,505)**	(26,254)	(18%)
(2,667)	(2,453)	(2,516)	6%	Operating and administrative expenses	**(9,787)**	(11,433)	(14%)
(4,261)	(2,466)	(3,972)	7%	Depreciation, amortisation and net impairment losses	**(11,550)**	(16,715)	(31%)
(1,435)	(656)	(480)	>100%	Exploration expenses	**(2,952)**	(3,872)	(24%)
(1,897)	737	152	N/A	Net operating income	**80**	1,366	(94%)
(2,785)	(427)	(1,122)	>(100%)	Net income	**(2,902)**	(5,169)	44%

Net operating income was negative USD 1,897 million in the fourth quarter of 2016, compared to net operating income of USD 152 million in the fourth quarter of 2015. The decrease was primarily due to higher net impairment charges related to various assets and increased losses from reflecting the fair value of derivatives. A decline in European gas prices, lower refinery throughput volumes due to maintenance and increased exploration costs added to the decrease. Strong marketing and trading margins, higher liquids and US gas prices and higher volumes sold partially offset the decrease.

In the fourth quarter of 2016, net operating income was negatively affected by net impairment charges of USD 2,298 million mainly due to reduced long-term price assumptions with the largest effect being on unconventional onshore assets in North America, and unrealised losses on derivatives and inventory hedge contracts of USD 765 million. For further information on the impairment charges, see note 2 Segments to the Condensed interim financial statements.

In the fourth quarter of 2015, net operating income was negatively affected by net impairments charges related to various assets of USD 1,185 million and provisions for disputes of USD 559 million.

Adjusted operating and administrative expenses decreased by 4% to USD 2,317 million in the fourth quarter of 2016. The cost improvement was primarily due to results from the on-going cost improvement initiatives and reduced transportation costs, partially off-set by increased production costs from new fields coming on stream.

Adjusted depreciation expenses increased by 2% to USD 2,781 million in the fourth quarter of 2016. Higher depreciation cost due to production start-up and ramp-up on new fields and the NOK/USD exchange rate development, and was to a large extent offset by reduced depreciation cost mainly due to maintenance activities and higher reserves estimates.

Adjusted exploration expenses increased by USD 117 million to USD 607 million in the fourth quarter of 2016 mainly due to a higher portion of capitalised expenditures from earlier years being expensed this quarter. A lower capitalisation rate in the fourth quarter of 2016 added to the increase, and was only partially offset by lower exploration activity in the fourth quarter of 2016.

After total adjustments of net USD 3,561 million to net operating income, **Adjusted earnings** [5] were USD 1,664 million in the fourth quarter of 2016, down 6% compared to USD 1,778 million in the fourth quarter of 2015.

Proved reserves at the end of 2016 were 5,013 mmboe, a decrease compared to 5,060 mmboe at the end of 2015. In 2016, a total of 653 mmboe were added through revisions, extensions, discoveries and acquisitions. The reductions in proved reserves were related to sale of reserves in place of 27 mmboe and entitlement production of 673 mmboe. The decrease in reserves in 2016 was partially compensated for by positive revisions on several of our producing fields due to good production performance and continued IOR efforts, sanctioning new field development projects in Norway and US offshore and continued drilling in our US onshore assets Bakken, Eagle Ford and Marcellus.

The reserve replacement ratio (RRR) was 93% in 2016 compared to 55% in 2015. The RRR measures the proved reserves added to the reserve base and includes the effects of sales and purchases, relative to the amount of oil and gas produced. The organic reserves replacement ratio was 87% compared to 88% in 2015 and the average three-year replacement ratio (including the effects of sales and purchases), was 70% at the end of 2016 compared to 81% in 2015.

Based on adjusted earnings after tax and average capital employed, **adjusted return on average capital employed (ROACE)[5]** was negative 0.4% for the 12-month period ended 31 December 2016 and positive 4.1% for the 12-month period ended 31 December 2015.

Organic capital expenditures [5] (excluding acquisitions and capital leases) amounted to USD 10.1 billion for the year ended 2016. Organic capital expenditures have been reduced by more than 20% compared to our original guidance for 2016. Gross investments amounted to USD 14.1 billion.

Q4 2016	Quarters Q3 2016	Q4 2015	Change Q4 on Q4	Adjusted earnings (in USD million)	2016	Full year 2015	Change
13,562	11,862	13,219	3%	Adjusted total revenues and other income	**46,894**	58,718	(20%)
(6,193)	(5,905)	(5,810)	7%	Adjusted purchases [6]	**(21,514)**	(25,992)	(17%)
(2,317)	(2,249)	(2,407)	(4%)	Adjusted operating and administrative expenses	**(9,170)**	(10,590)	(13%)
(2,781)	(2,490)	(2,735)	2%	Adjusted depreciation expenses	**(10,249)**	(10,726)	(4%)
(607)	(581)	(490)	24%	Adjusted exploration expenses	**(1,891)**	(1,777)	6%
1,664	636	1,778	(6%)	Adjusted earnings [5]	**4,070**	9,633	(58%)
(40)	(261)	185	N/A	Adjusted earnings after tax [5]	**(208)**	2,465	N/A

Adjusted earnings after tax [5] were negative USD 40 million in the fourth quarter of 2016, which reflects an effective tax rate on adjusted earnings of 102.4%, compared to 89.4% in the fourth quarter of 2015. The effective tax rate increased mainly due to relatively higher losses (including non-tax deductible exploration losses in the Development and Production International segment) in entities with lower than average tax rates or entities without recognised deferred tax asset.

Total cash flows were reduced by USD 3,658 million compared to the fourth quarter of 2015.

Cash flows provided by operating activities were reduced by USD 191 million compared to the fourth quarter of 2015. The decrease was mainly due to reduced liquids and gas prices and an increase in working capital, partially offset by lower taxes paid.

Cash flows used in investing activities were increased by USD 2,687 million compared to the fourth quarter of 2015. The increase was mainly due to significantly lower cash flow from financial investments and higher capital expenditures.

Cash flows used in financing activities were increased by USD 779 million compared to the fourth quarter of 2015. The increase is mainly due to decreased cash flow from collateral received related to derivatives, offset by reduced cash dividend paid and net new debt.

Free cash flow [5] in the fourth quarter of 2016 was negative USD 63 million, an increase of USD 1,792 million compared to the fourth quarter of 2015 mainly due to realisation of derivatives related to long term loans and lower taxes paid.

Full year 2016

Net operating income was USD 80 million for the full year of 2016 compared to USD 1,366 million for the full year of 2015. The significant decrease was primarily driven by the drop in liquids and gas prices, lower refinery margins and lower gains on sale of assets. The decrease was partially offset by lower net impairment charges in 2016 compared to 2015 and a reduction in operating, depreciation and exploration costs.

In 2016, net operating income was negatively impacted by net impairment charges of USD 2,317 million mainly due to reduced long-term price assumptions with the largest effect being on unconventional onshore assets in North America, and unrealised losses on derivatives and inventory hedge contracts of USD 1,098 million. In 2015, net operating income was negatively impacted by net impairment charges of USD 8,167 million and provisions for disputes of USD 639 million. Gain from sale of assets of USD 1,750 million mainly related to the divestment of the Shah Deniz project impacted net operating income positively.

Adjusted operating and administrative expenses decreased by 13% to USD 9,170 million in 2016, mainly as a results of the on-going cost improvement initiatives and the NOK/USD exchange rate development. Lower operation and maintenance costs, decreased diluent cost and reduced transportation costs added to the decrease. Ramp-up and start-up of production on new fields partially offset the decrease in operating costs.

Adjusted depreciation expenses decreased by 4% to USD 10,249 million in 2016, mainly due to lower depreciation on mature fields, the NOK/USD exchange rate development in 2016 and a net increase in proved reserves estimates. The decrease was partially offset by start-up and ramp-up of production on several fields.

Adjusted exploration expenses increased by 6% to 1,891 million in 2016, primarily due to a higher portion of expenditures capitalised in previous years being expensed in 2016, and a lower capitalisation rate on exploration expenditures incurred in 2016 compared to 2015. Significant lower drilling activity and less expensive wells drilled in 2016, partially offset the increase.

After total adjustments of USD 3,901 million to net operating income as described above, **Adjusted earnings** were USD 4,070 million in for the full year of 2016, down 58% from USD 9,633 million in for the full year of 2015.

Adjusted earnings after tax were negative USD 208 million for the full year 2016 compared to USD 2,466 million for the full year 2015. The effective tax rate on adjusted earnings was 105.1%, compared to an effective tax rate of 74.4% in 2015. The tax rates increased mainly due to relatively higher losses (including exploration losses with no tax deductions in the Development and Production International segment) in entities with lower than average tax rates or entities without recognised deferred tax asset.

Total cash flows were reduced by USD 1,769 million compared to the full year 2015.

Cash flows provided by operating activities were reduced by USD 4,594 million compared to the full year 2015. The decrease was mainly due to reduced liquids and gas prices, partially offset by lower taxes paid.

Cash flows used in investing were reduced by USD 4,055 million compared to the full year 2015. The decrease was due to significantly lower capital expenditures, lower financial investments and reduced proceeds from sale of assets.

Cash flows used in financing activities increased by USD 1,230 million compared to the full year 2015. The change is mainly due to reduced cash flow from finance debt, partially offset by reduced cash dividend due to the scrip dividend.

Free cash flow [5] for the full year of 2016 was negative USD 3,086, a decrease of USD 898 million compared to the full year 2015 mainly due to the decrease in revenues.

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 1.5 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 **equity production** for 2017 is estimated to be around 4-5% above the 2016 level
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 10 mboe per day in the first quarter of 2017. In total, maintenance is estimated to reduce equity production by around 30 mboe per day for the full fiscal year 2017, which is lower than the 2016 impact
- **Indicative effects from Production Sharing Agreement (PSA-effect) [4] and US royalties** are estimated to be around 150 mboe per day in 2017 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
- Statoil expects to achieve **ROACE [5]** above 10% in 2020 at an oil price of 70 USD per barrel

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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