Press release

February 7, 2018

2017 fourth quarter & year end results

Statoil reports adjusted earnings of USD 4.0 billion and USD 1.3 billion after tax in the fourth quarter of 2017. IFRS net operating income was USD 5.2 billion and the IFRS net income was USD 2.6 billion.

The fourth quarter was characterised by:

- Strong earnings and underlying cash flow. Net debt ratio at 29.0% [5]
- Solid operational performance with record production in fourth quarter and 2017. The 2017 underlying production growth was above 6% [7]. The reserve replacement ratio (RRR) was 150%
- Strong progress on project deliveries and efficiency improvements. 2017 organic capex was USD 9.4 billion [5]
- Increase in dividend by 4.5% to USD 0.23 per share, subject to annual general meeting approval

"In a recovering market, we delivered strong earnings and cash flow from all business segments. We had record high production both in the fourth quarter and for the full year, supported by continued solid operational performance. We expect long-term underlying earnings growth, and in line with our dividend policy the board proposes to increase the dividend by 4.5% to USD 0.23 per share," says Eldar Sætre, President and CEO of Statoil ASA.

"We have taken down our capital expenditure to 9.4 billion dollars from an initial guiding of 11 billion dollars. This has been achieved from continued improvement efforts and strong project deliveries. In cooperation with our suppliers and partners, we are getting more for less," says Sætre.

"Our cash flow generation was strong across the business. At an average oil price of around 54 dollars per barrel, we generated 3.1 billion dollars in free cash flow in 2017 and strengthened our financial position. We reduced our net debt ratio by more than 6 percentage points during this year, after having done several value-enhancing acquisitions," says Sætre.

Adjusted earnings [5] were USD 4.0 billion in the fourth quarter, up from USD 1.7 billion in the same period in 2016. Adjusted earnings after tax [5] were USD 1.3 billion in the fourth quarter, up from negative USD 40 million in the same period last year. Higher prices and continued solid operational performance, with record high production, contributed to the increase. In addition, lower exploration expenses contributed positively. For the full year, adjusted earnings were USD 12.6 billion, more than three times higher than USD 4.1 billion in 2016.

IFRS net operating income was USD 5.2 billion in the fourth quarter compared to negative USD 1.9 billion in the same period of 2016. The IFRS result was impacted by net impairment reversals of USD 1.6 billion, mainly related to a US onshore asset. IFRS net income was USD 2.6 billion, up from negative USD 2.8 billion in the fourth quarter of 2016. For the full year, IFRS net income was USD 4.6 billion, compared to negative USD 2.9 billion in 2016.

Statoil delivered equity production of 2,134 mboe per day in the fourth quarter, an increase from 2,095 mboe per day in the same period in 2016. The increase was primarily due to higher flexible gas production to capture higher prices, increased production US onshore and ramp-up of new fields. With continued solid operational performance Statoil delivered all time high production with an underlying production growth [7] of more than 6% in 2017.

As of year-end 2017, Statoil had completed 28 exploration wells with 14 commercial discoveries. Adjusted exploration expenses in the quarter were USD 0.3 billion, down from USD 0.6 billion in the fourth quarter of 2016.

The reserve replacement ratio (RRR) was 150% in 2017, impacted by sanctioning of new projects and positive reserve revisions on existing fields.

Cash flows provided by operating activities before taxes paid and working capital amounted to USD 20.7 billion for the full year of 2017 compared to USD 15.0 billion in 2016. Organic capital expenditure [5] was USD 9.4 billion for the full year of 2017. At year end, net debt to capital employed [5] was 29.0%, after an increase in working capital and payments for value enhancing transactions.

The board of directors proposes to the annual general meeting (AGM) to increase the dividend by 4.5% to USD 0.23 per share, for the fourth quarter. The two-year scrip program ended as planned in third quarter 2017.

The twelve-month average Serious Incident Frequency (SIF) was 0.6 for 2017, compared to 0.8 in 2016.

Capital markets update

Today, Statoil presents its update to the capital market, focusing on three priorities:

- Growing cash flow and returns – capacity to generate USD 12 billion in free cash flow [5] from 2018 to 2020, and around 12% return on average capital employed (ROACE) [5] in 2020[1]. Statoil can be free cash flow positive below USD 50 per barrel from 2018 to 2020[2]
- Delivering profitable growth from world class projects - investing in a radically improved next generation portfolio with 3.2 billion barrels at an average break-even of USD 21 per barrel
- Leveraging industrial strengths to realise the always safe, high value, low carbon strategy

"We expect to increase returns and can deliver 12 billion dollars in free cash flow from 2018 to 2020. With solid operational performance and realised efficiencies, we are a stronger and more competitive company. We have radically improved our next generation portfolio, and Johan Sverdrup phase 1, has now a break-even below 15 dollars per barrel. We will profitably grow production, strengthen our balance sheet, and increase the cash dividend", says Sætre.

"The Norwegian continental shelf is the backbone of our business, where we develop new ideas and technologies, and scale them industrially to create even more value. Internationally we are increasingly targeting opportunities where we can leverage our key value drivers with an even stronger Statoil-operated footprint", says Sætre.

Statoil continues to transform its cost base and value creation potential. With USD 1.3 billion in additional improvements in 2017, Statoil has realised annual efficiencies of USD 4.5 billion from 2013. Digitalisation and innovation can further enhance safety, increase value creation, reduce drilling costs, and enable significant capex reductions in future field developments.

Statoil is already an industry leader on carbon intensity, and has set ambitious CO_2 emission reduction targets.

The company expects to invest 15-20% of total capex in new energy solutions by 2030.

"Statoil has a competitive advantage to create superior value in a low carbon future, with CO_2 emissions around half the industry average and record high natural gas production that can replace coal. We will continue to develop as a broad energy company and are building a profitable industrial position within new renewable energy," says Sætre.

Furthermore, Statoil announces its updated outlook for 2018-2020:

- Statoil expects organic capex [5] of around USD 11 billion in 2018
- Statoil expects 1-2% production growth in 2018 and an annual production growth of around 3-4% from 2017 to 2020
- Statoil expects to drill around 40 exploration wells in 2018 with an expected spend of around USD 1.5 billion

	Quarters		Change			Full year	
Q4 2017	Q3 2017	Q4 2016	Q4 on Q4		2017	2016	Change
5,182	1,095	(1,897)	N/A	Net operating income (USD million)	**13,771**	80	>100%
3,956	2,346	1,664	>100%	Adjusted earnings (USD million) [5]	**12,638**	4,070	>100%
2,575	(478)	(2,785)	N/A	Net income (USD million)	**4,598**	(2,902)	N/A
1,306	819	(40)	N/A	Adjusted earnings after tax (USD million) [5]	**4,528**	(208)	N/A
2,134	2,045	2,095	2%	Total equity liquids and gas production (mboe per day) [4]	**2,080**	1,978	5%
56.0	47.0	43.8	28%	Group average liquids price (USD/bbl) [1]	**49.1**	37.8	30%

[1] Assuming USD 70 per barrel organic free cash flow, including announced transactions
[2] Organic free cash flow, excluding considerations from announced transactions

GROUP REVIEW

Fourth quarter 2017

Total equity liquids and gas production [4] was 2,134 mboe per day in the fourth quarter of 2017, up 2% compared to fourth quarter of 2016 mainly due to new production from ramp-up and start-up on various fields, and increased flexible gas production on the Norwegian continental shelf because of higher prices. Expected natural decline and divestments partially offset the increase.

Total entitlement liquids and gas production [3] was slightly up 1% to 1,962 mboe per day in the fourth quarter of 2017 compared to 1,934 mboe per day in the fourth 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] due to higher prices. The effects from PSA and US royalties were 172 mboe per day in the fourth quarter of 2017 compared to 161 mboe per day in the fourth quarter of 2016.

Q4 2017	Quarters Q3 2017	Q4 2016	Change Q4 on Q4	Condensed income statement under IFRS (unaudited, in USD million)	2017	Full year 2016	Change
17,114	13,609	12,756	34%	Total revenues and other income	**61,187**	45,873	33%
(8,414)	(6,475)	(6,290)	34%	Purchases [net of inventory variation]	**(28,212)**	(21,505)	31%
(2,433)	(2,216)	(2,667)	(9%)	Operating and administrative expenses	**(9,501)**	(9,787)	(3%)
(1,292)	(3,096)	(4,261)	(70%)	Depreciation, amortisation and net impairment losses	**(8,644)**	(11,550)	(25%)
207 1)	(727)	(1,435)	N/A	Exploration expenses	**(1,059)**	(2,952)	(64%)
5,182	1,095	(1,897)	N/A	Net operating income/(loss)	**13,771**	80	>100%
2,575	(478)	(2,785)	N/A	Net income/(loss)	**4,598**	(2,902)	N/A

1) Positive exploration expenses due to impairment reversal. See note 2 and 6 to the Condensed interim financial statements for further information.

Net operating income was USD 5,182 million in the fourth quarter of 2017, compared to net operating income of negative USD 1,897 million in the fourth quarter of 2016. The substantial increase was primarily due to higher liquids and gas prices and net impairments reversals, compared to net impairment charges in the same quarter last year. Higher gas volumes and reduced exploration and depreciation expenses added to the increase in net operating income.

In addition to the positive effect from net impairment reversals of USD 1,647 million in the fourth quarter of 2017, net operating income was negatively affected by changes in fair value of derivatives and inventory hedge contracts of USD 264 million. In the fourth quarter of 2016, net impairment charges of USD 2,298 million and unrealised losses on derivatives and inventory hedge contracts of USD 765 million negatively affected net operating income.

For further details on impairment and impairment reversals, see note 2 Segments to the Condensed interim financial statement and the section Use and reconciliation of non-GAAP financial measures later in this report.

Q4 2017	Quarters Q3 2017	Q4 2016	Change Q4 on Q4	Adjusted earnings (in USD million)	2017	Full year 2016	Change
17,455	14,092	13,562	29%	Adjusted total revenues and other income	**60,782**	46,894	30%
(8,386)	(6,515)	(6,193)	35%	Adjusted purchases [6]	**(28,247)**	(21,514)	31%
(2,407)	(2,238)	(2,317)	4%	Adjusted operating and administrative expenses	**(9,083)**	(9,170)	(1%)
(2,433)	(2,577)	(2,781)	(13%)	Adjusted depreciation expenses	**(9,699)**	(10,249)	(5%)
(274)	(416)	(607)	(55%)	Adjusted exploration expenses	**(1,115)**	(1,891)	(41%)
3,956	2,346	1,664	>100%	Adjusted earnings [5]	**12,638**	4,070	>100%
1,306	819	(40)	N/A	Adjusted earnings after tax [5]	**4,528**	(208)	N/A

Adjusted operating and administrative expenses increased by USD 90 million in the fourth quarter of 2017, compared to the fourth quarter of 2016. New fields coming on stream and a high activity level in general was partially offset by decreased costs due to divestments of assets.

Adjusted depreciation expenses decreased by 13% to USD 2,433 million in the fourth quarter of 2017, mainly due to higher reserves estimates, lower liquids production and lower depreciation basis due to impairments of assets in previous periods. Production start-up and ramp-up of new fields partially offset the decrease.

Adjusted exploration expenses decreased by USD 333 million to USD 274 million mainly due to a lower portion of capitalised expenditures from earlier years being expensed in the fourth quarter of 2017 compared to the fourth quarter of 2016. Exploration activity was higher in the fourth quarter of 2017, but less expensive wells drilled and lower seismic and field development costs than in the fourth quarter of 2016, added to the reduction in exploration expenses.

After total adjustments of net USD 1,227 million to net operating income, **Adjusted earnings** [5] were USD 3,956 million in the fourth quarter of 2017, up from USD 1,664 million in the fourth quarter of 2016.

Adjusted earnings after tax [5] were USD 1,306 million in the fourth quarter of 2017, which reflects an effective tax rate on adjusted earnings of 67%, compared to 102.4% in the fourth quarter of 2016. The reduction in effective tax rate was mainly due to lower losses in fourth quarter of 2017 compared to fourth quarter of 2016 in entities with lower than average tax rates or in entities without recognised deferred tax assets.

Total cash flows increased by USD 672 million compared to the fourth quarter of 2016.

Cash flows provided by operating activities were reduced by USD 368 million compared to the fourth quarter of 2016. The decrease was mainly due to a reduction in finance derivatives effects and increased tax payments offset by increased liquids and gas prices compared to the fourth quarter of last year. The change in the finance foreign exchange derivatives is mainly offset by a change in cash flows used in investing activities.

Cash flows used in investing activities were reduced by USD 2,795 million compared to the fourth quarter of 2016. The decrease was mainly due to reduced financial investments.

Cash flows used in financing activities were increased by USD 1,755 million compared to the fourth quarter of 2016. The increase in cash flow was mainly due to repayment of four bond loans, partially offset by increased cash flow from collateral related to derivatives.

Free cash flow [5] in the fourth quarter of 2017 was negative USD 465 million compared to negative USD 63 million in the fourth quarter of 2016 mainly due to increased tax payments and a reduction in finance derivatives effects, offset by increased liquids and gas prices and decreased capital expenditures.

Full year 2017

Net operating income was USD 13,771 million in 2017 compared to USD 80 million in 2016. The large increase was primarily driven by higher prices for both liquids and gas, increased gas volumes and significant net impairments reversals in 2017 compared to net impairment charges in 2016. Reduced depreciation and exploration expenses added to the increase.

In addition to net impairment reversals of USD 1,137 million in 2017, net operating income was positively impacted by changes in fair value of derivatives and inventory hedge contracts of USD 240 million and negatively impacted by net losses on sale of assets of USD 372 million.

In 2016, net operating income was negatively impacted by net impairment charges of USD 2,317 million and unrealised losses on derivatives and inventory hedge contracts of USD 1,098 million.

For further details on impairment and impairment reversals, see note 2 Segments to the Condensed interim financial statement and the section Use and reconciliation of non-GAAP financial measures later in this report.

Adjusted operating and administrative expenses were USD 9,083 million in 2017, a slight decrease of 1% since 2016. New fields coming on stream and ramp-up on various fields, and higher royalty costs were offset by lower expenses due to divestments and reduced asset retirement provisions.

Adjusted depreciation expenses decreased by 5% to USD 9,699 million in 2017, mainly due to net increases in proved reserves estimates on several fields and lower depreciation basis due to impairments of assets in previous periods. Start-up and ramp-up of new fields partially offset the reduction in depreciation costs.

Adjusted exploration expenses decreased by USD 776 million to USD 1,115 million, primarily due to a lower portion of expenditures capitalised in previous years being expensed in 2017 compared to 2016. Exploration activity was higher in 2017. However, as the exploration wells drilled in 2017 were less expensive due to improved drilling efficiency, exploration expenditures were reduced in 2017 compared to 2016. The lower capitalisation rate in 2017 partially offset the decrease.

After total adjustments of USD 1,133 million to net operating income, **Adjusted earnings** [5] were USD 12,638 million in 2017, significantly up from 2016 when adjusted earnings were USD 4,070 million.

Adjusted earnings after tax [5] were USD 4,528 million for the full year 2017, compared to negative USD 208 million for the full year 2016. The effective tax rate on adjusted earnings was 64,2%, compared to an effective tax rate of 105.1% for the full year 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 2017 compared to 2016 in entities with lower than average tax rates or in entities without recognised deferred tax assets.

Proved reserves at the end of 2017 were 5,367 mmboe, an increase compared to 5,013 mmboe at the end of 2016. In 2017, a total of 1,096 mmboe were added through revisions, extensions, discoveries and acquisitions. The increase in reserves in 2017 was due to positive revisions on several of our producing fields in Norway and internationally due to good production performance and continued IOR efforts, sanctioning of several new field development projects in Norway, continued drilling and improved production performance in our US onshore assets and the extension of the Azeri-Chirag-Deepwater Gunashli (ACG) production sharing agreement. The increased oil price also had a positive impact on the proved reserves in several assets. All numbers are including equity accounted entities.

The reserve replacement ratio (RRR) was 150% in 2017 compared to 93% in 2016. 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 excluding sales and purchases was 148% compared to 87% in 2016 and the average three-year replacement ratio (including the effects of sales and purchases), was 99% at the end of 2017 compared to 70% at the end of 2016.

Based on adjusted earnings after tax and average capital employed, calculated **return on average capital employed (ROACE)** [5] was 8.2% for the 12-month period ended 31 December 2017 and negative 0.4% for the 12-month period ended 31 December 2016.

Organic capital expenditures [5] amounted to USD 9.4 billion for the year ended 2017, compared to the original guidance for 2017 of USD 11 billion. Total capital expenditures were USD 10.8 billion in 2017.

Total cash flows increased by USD 2,234 million compared to the full year 2016.

Cash flows provided by operating activities were increased by USD 5,329 million compared to the full year 2016. The increase was mainly due to increased liquids and gas prices and a reduction in working capital, partially offset by increased tax payments.

Cash flows used in investing activities were reduced by USD 768 million compared to the full year 2016. The decrease was due to decreased capital expenditures, partially offset by reduced proceeds from sale of assets and increased financial investments.

Cash flows used in financing activities were increased by USD 3,863 million compared to the full year 2016. The cash outflow was mainly due to repayment of finance debt, partially offset by increased cash flow from collateral related to derivatives.

Free cash flow [5] for the full year of 2017 was USD 3,144 million compared to negative USD 3,086 million in the full year 2016, an improvement of more than USD 6 billion. The increase was mainly due to higher liquids and gas prices and decreased capital expenditures, partially offset by increased tax payments.

OUTLOOK

- **Organic capital expenditures** [5] for 2018 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 2018, excluding signature bonuses
- Statoil's ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2017 - 2020, **production growth** [7] is expected to come from new projects resulting in around 3-4% CAGR (Compound Annual Growth Rate)
- **Production** [7] for 2018 is estimated to be 1-2% above the 2017 level
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 10 mboe per day in the first quarter of 2018. In total, maintenance is estimated to reduce equity production by around 30 mboe per day for the full year of 2018

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. Deferral of production to create future value, gas off-take, timing of new capacity coming on stream, operational regularity, activity level in the US onshore, as well as uncertainty around the closing of the announced transactions represent the most significant risks related to the foregoing production guidance. 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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