Press release

27 July 2016

Second quarter 2016

Statoil reports net operating income of USD 180 million and adjusted earnings of USD 913 million in the second quarter of 2016.

The second quarter was characterised by

- **Solid operational performance – while financial results are affected by low prices**
- **Maintaining production guiding – lowering 2016 capex and exploration guidance**
- **Continued focus on strict capital discipline**

"We delivered solid operational performance with strong production growth and progress on project development and execution. Our financial results were affected by low oil and gas prices in the quarter," says Eldar Sætre, President and CEO of Statoil ASA.

"We maintain our production guidance, expecting annual organic production growth of around 1% from 2014 to 2017. Strict prioritisation, good results from our improvement programme and more effective drilling operations allow us to lower our 2016 capex and exploration guidance", says Sætre.

"We see continued progress on our plan to improve efficiency and make faster and deeper cost reductions. As an additional tool to strengthen the company's financial flexibility, we have successfully introduced a scrip dividend", says Sætre.

Net operating income was USD 180 million in the second quarter compared to USD 3,635 million in the same period of 2015. The reduction was primarily due to the drop in prices for oil and gas and lower refinery margins. Cost reductions contributed positively to the results. Net operating income for the second quarter in 2015 was impacted by a significant sales transaction.

Adjusted earnings were USD 913 million in the second quarter compared to USD 2,883 million in the same period in 2015. In addition to the continued low prices, the result reflects reduced overall operating costs mainly as a result of the on-going cost improvement initiatives. Adjusted earnings after tax were negative USD 28 million in the second quarter, down from USD 929 million in the same period last year.

Statoil delivered equity production of 1,959 mboe per day in the second quarter. The underlying production growth in the quarter, after adjusting for divestments, was 6% compared to the second quarter of last year. In the second quarter Statoil made two discoveries on the Norwegian continental shelf (NCS) and one in Canada. As of 30 June 2016, Statoil had completed 15 wells. Adjusted exploration expenses in the quarter were USD 423 million, down from USD 524 million in the second quarter of 2015.

Cash flow from operations amounted to USD 3,349 million in the first half of 2016 compared to USD 6,278 million in the same period last year. Organic capital expenditure was USD 5.3 billion in the first six months of 2016, and net debt to capital employed at the end of the quarter was 31.2%.

Statoil is lowering its capex guidance for 2016 from USD 13 billion to USD 12 billion and its exploration guidance for 2016 from USD 2 billion to USD 1.8 billion. Production guidance remains unchanged, and expected annual organic production growth is 1% from 2014 to 2017.

The board of directors has decided to pay a dividend of USD 0.2201 per ordinary share for the second quarter. Pursuant to the scrip dividend programme approved at the annual general meeting on 11 May 2016, shareholders will have the option to receive the dividend for the second quarter in cash or newly issued shares in Statoil at a 5% discount.

In the second quarter, Statoil experienced two fatal accidents. On 29 April, a helicopter returning from Gullfaks B crashed at Turøy outside Bergen and 13 people lost their lives. The accident at Turøy is being investigated by the Investigation Board Norway (Havarikommisjonen). On 21 April, a contractor was fatally injured in a grinding accident in a yard in Korea.

The twelve month average Serious incident frequency (SIF) was 0.8 per 30 June 2016, compared to 0.6 in the same period last year.

	Quarters		Change			First half	
Q2 2016	Q1 2016	Q2 2015	Q2 on Q2		2016	2015	Change
180	1,060	3,635	(95%)	Net operating income (USD million)	**1,240**	332	>100%
913	857	2,883	(68%)	Adjusted earnings (USD million) [5]	**1,769**	5,828	(70%)
(302)	611	866	N/A	Net income (USD million)	**309**	(3,704)	N/A
(28)	122	929	N/A	Adjusted earnings after tax (USD million) [5]	**94**	1,831	(95%)
1,959	2,054	1,873	5%	Total equity liquids and gas production (mboe per day) [4]	**2,007**	1,964	2%
39	29	55	(28%)	Group average liquids price (USD/bbl) [1]	**34**	51	(33%)

Key events since first quarter 2016:

- Following the helicopter accident on 29 April, Statoil initiated an investigation to identify measures to improve Statoil's work on helicopter safety on the NCS. The report is expected to be ready by the end of September 2016
- Statoil entered into an agreement with Lundin Petroleum to divest its entire 15% interest in the Edvard Grieg field for an increased shareholding in Lundin Petroleum AB, increasing the ownership to 20.1%
- In May Statoil introduced the scrip dividend programme, and at the end of the subscription period 43% had selected shares with a 5% discount
- The Ministry of Petroleum and Energy awarded Statoil five licences in the 23rd licensing round, four operatorships and one partnership
- Statoil agreed to acquire JX Nippon's 45% equity share in, and operatorship of, the UK licence for the Utgard field
- The Ministry of Petroleum and Energy has sanctioned the Plan for Development and Operation (PDO) of Oseberg Vestflanken 2 field

SECOND QUARTER 2016 GROUP REVIEW

The second quarter financial results continued to be characterised by the low price environment and low refining margins. Strong production and reduced costs still had a positive effect on earnings.

Total equity liquids and gas production [4] was 1,959 mboe per day in the second quarter of 2016, up 5% compared to second quarter of 2015 mainly due to stronger operational performance and new production from ramp-up and start-up on various fields. Expected natural decline on mature fields and lower ownership shares from divestments partially offset the increase.

Total entitlement liquids and gas production [3] was up by 6% to 1,814 mboe per day compared to 1,709 mboe per day in the second quarter of 2015. The increase was due to the increase in equity production as described above and a beneficial effect from production sharing agreements (PSA effect) mainly driven by higher entitlement factor as a consequence of the decline in oil prices. The PSA effect was 103 mboe per day in the second quarter of 2016 compared to 122 mboe per day in the second quarter of 2015.

	Quarters		Change	Condensed income statement under IFRS		First half	
Q2 2016	Q1 2016	Q2 2015	Q2 on Q2	(unaudited, in USD million)	2016	2015	Change
10,895	10,115	17,422	(37%)	Total revenues and other income	**21,010**	32,935	(36%)
(5,251)	(4,170)	(7,307)	(28%)	Purchases [net of inventory variation]	**(9,421)**	(13,893)	(32%)
(2,172)	(2,495)	(2,922)	(26%)	Operating and administrative expenses	**(4,667)**	(6,094)	(23%)
(2,783)	(2,039)	(3,087)	(10%)	Depreciation, amortisation and net impairment losses	**(4,822)**	(10,424)	(54%)
(509)	(351)	(471)	8%	Exploration expenses	**(860)**	(2,192)	(61%)
180	1,060	3,635	(95%)	Net operating income	**1,240**	332	>100%
(302)	611	866	N/A	Net income	**309**	(3,704)	N/A

Net operating income was USD 180 million in the second quarter of 2016, compared to USD 3,635 million in the second quarter of 2015. The significant decrease was primarily due to the drop in prices for liquids and gas, lower refinery margins and reduced gain on sale of assets this quarter. Lower costs partially offset the decrease.

In addition, net operating income in the second quarter of 2016 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 following a revision of production forecasts. Net operating income was positively impacted by gain on sale of assets of USD 119 million mainly related to the divestment of the Edvard Grieg field.

In the second quarter of 2015, net operating income was positively affected mainly by gain from sale of assets of USD 1,346 million mainly related to the divestment of the Shah Deniz project, and negatively affected by net impairment charges of USD 391 million.

Adjusted operating and administrative expenses decreased by 18% to USD 2,203 million in the second quarter of 2016, mainly due to lower operating plant cost as a result of the on-going cost improvement initiatives. Lower diluent expenses and royalty costs driven by reduced prices and the NOK/USD exchange rate development also contributed to the reduction. Increased operating costs for new fields coming on stream, higher transportation expenses in the US and portfolio changes partially offset the cost reductions.

Adjusted depreciation expenses decreased by 3% to USD 2,560 million in the second quarter of 2016, mainly due to lower depreciation on mature fields and the NOK/USD exchange rate development. Higher proved reserves estimates for certain assets added to the decrease, partially offset by production start-up and ramp-up of new fields and new investments.

Adjusted exploration expenses decreased by 19% to USD 423 million in the second quarter of 2016 mainly due to lower drilling activity and more expensive wells being drilled in the second quarter of last year. The decrease was partially offset by a lower portion of current exploration expenditures being capitalised and a higher portion of capitalised expenditures from earlier years being expensed this quarter compared to the second quarter of 2015.

After total adjustments of USD 733 million to net operating income, **Adjusted earnings** [5] were USD 913 million in the second quarter of 2016, down 68% compared to USD 2,883 million in the second quarter of 2015.

Q2 2016	Quarters Q1 2016	Q2 2015	Change Q2 on Q2	Adjusted earnings (in USD million)	2016	First half 2015	Change
11,291	10,179	16,135	(30%)	Adjusted total revenues and other income	**21,470**	31,797	(32%)
(5,192)	(4,223)	(7,410)	(30%)	Adjusted purchases [6]	**(9,416)**	(14,013)	(33%)
(2,203)	(2,400)	(2,682)	(18%)	Adjusted operating and administrative expenses	**(4,603)**	(5,672)	(19%)
(2,560)	(2,418)	(2,636)	(3%)	Adjusted depreciation expenses	**(4,979)**	(5,408)	(8%)
(423)	(280)	(524)	(19%)	Adjusted exploration expenses	**(703)**	(875)	(20%)
913	857	2,883	(68%)	Adjusted earnings [5]	**1,769**	5,828	(70%)
(28)	122	929	N/A	Adjusted earnings after tax [5]	**94**	1,831	(95%)

Adjusted earnings after tax [5] were negative USD 28 million in the second quarter of 2016, which reflects an effective tax rate on adjusted earnings of 103.1%, compared to 67.8% in the second quarter of 2015. The effective tax rate increased mainly due to 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 tax.

Cash flows provided by operating activities were USD 1,144 million in the second quarter of 2016 compared to USD 2,538 million in the second quarter of 2015. Excluding working capital movements and taxes paid, cash flows provided by operating activities were USD 3,026 million in the second quarter of 2016 compared to USD 5,476 million in the second quarter of 2015. The 45% decrease was mainly due to reduced liquids and gas prices.

Cash flows used in investing activities were USD 3,039 million in the second quarter of 2016 compared to USD 2,061 million in the second quarter of 2015. The increase of USD 978 million was mainly due to lower proceeds from sale of assets of USD 2,640 million and lower capital expenditures of USD 1,467 million compared to the second quarter of 2015.

Cash flows provided by financing activities were USD 242 million in the second quarter of 2016 compared to cash flows used in financing activities of USD 2,209 million in the second quarter of 2015, a change of USD 2,451 million. The change is mainly due to a change in cash flow from net current debt of USD 2,273 million and lower dividends paid of USD 331 million which was partially offset by higher repayment of debt of USD 150 million.

Free cash flow [11] in the second quarter of 2016 was negative USD 1,771 million compared to USD 104 million for the second quarter of 2015, mainly due to reduced liquids and gas prices.

First half 2016

Net operating income was USD 1,240 million in the first half of 2016 compared to USD 332 million in the first half of 2015. The increase was primarily due to significantly lower net impairment charges in the first half of 2016 compared to the same period last year and reduced costs. The increase was partially offset by the drop in liquids and gas prices, lower margins in the sales and trading activity, lower refinery margins, reduced fair value of derivatives and less gain from sale of assets.

In addition, net operating income in the first half of 2016 was negatively impacted by lower fair value of commodity derivatives of USD 305 million and changes in the market value of storage and future physical contracts of USD 187 million. Net operating income was positively impacted by gain on sale of assets of USD 119 million mainly related to the divestment of the Edvard Grieg field.

In the first half of 2015, net operating income was negatively impacted by net impairment losses of USD 6,325 million and lower fair values of derivatives of USD 386 million. Gain from sale of assets of USD 1,403 million mainly related to the divestment of the Shah Deniz project impacted net operating income positively.

Adjusted operating and administrative expenses decreased by 19% to USD 4,603 million in the first half of 2016 mainly due to results from the on-going cost improvement initiatives and the NOK/USD exchange rate development. Lower operation and maintenance costs, lower diluent and royalty expenses and lower transportation costs added to the decrease, partially offset by operating costs for new fields coming on stream.

Adjusted depreciation expenses decreased by 8% to USD 4,979 million in the first half of 2016, mainly due to lower depreciation on mature fields, the NOK/USD exchange rate development, lower asset retirement obligations and higher reserves estimates. The decrease was partially offset by start-up and ramp-up of new fields.

Adjusted exploration expenses decreased by 20% to USD 703 million in the first half of 2016 mainly due to lower drilling activity and more expensive wells being drilled in the first half of 2015. The decrease was partially offset by a lower capitalisation rate of current exploration expenditures and a higher portion of capitalised expenditures from earlier years being expensed this period when compared to the first half of 2015.

After total adjustments of USD 530 million to net operating income as described above, **Adjusted earnings** were USD 1,769 million in the first half of 2016, down 70% from USD 5,828 million in the same period last year.

Adjusted earnings after tax were USD 94 million in the first half of 2016 compared to USD 1,831 million in the first half of 2015. The effective tax rate on adjusted earnings was 94.7%, compared to an effective tax rate of 68.6% in 2015. The tax rates increased mainly due to 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 tax.

Cash flows provided by operating activities were USD 3,349 million in the first half of 2016 compared to USD 6,278 million in the first half of 2015. Excluding working capital movements and taxes paid, cash flows provided by operating activities were USD 6,412 million in the first half of 2016 compared to USD 11,242 million in the first half of 2015. The 43% decrease was mainly due to reduced liquids and gas prices.

Cash flows used in investing activities were USD 5,376 million in the first half of 2016 compared to USD 10,399 million in the first half of 2015. The decrease of USD 5,023 million was mainly due an increase in financial investments of USD 5,520 million compared to 2015. Furthermore lower proceeds from sale of assets of USD 3,112 million partially offset by lower capital expenditures of USD 2,610 million compared to the first half of 2015.

Cash flows used in financing activities were USD 6 million in the first half of 2016 compared to cash flows provided in financing activities of USD 534 million in the first half of 2015, a change of USD 540 million. The change is mainly due to issuance of new debt in 2015 of USD 4,263 million partially offset by higher repayments of debt of USD 1,274 million and change in cash flow from net current debt of USD 2,060 million and lower dividends paid of USD 390 million.

Free cash flow [11] in the first half of 2016 was negative USD 3,154 million compared to negative USD 40 million in the first half of 2015, mainly due to reduced liquids and gas prices.

OUTLOOK

- **Organic capital expenditures** for 2016 (i.e. excluding acquisitions, capital leases and other investments with significant different cash flow pattern) are estimated at around USD 12 billion
- Statoil intends to continue to mature its large portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.8 billion for 2016, excluding signature bonuses
- Statoil expects to deliver **efficiency improvements** with pre-tax cash flow effects of around USD 2.5 billion from 2016
- Statoil's ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2014 – 2017, **organic production growth** [7] is expected to come from new projects resulting in around 1% CAGR (Compound Annual Growth Rate) from a 2014 level rebased for divestments
- The **equity production** for 2016 is estimated to be somewhat lower than the 2015 level due to Statoil's value over volume-approach
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 115 mboe per day in the third quarter of 2016. In total, maintenance is estimated to reduce equity production by around 60 mboe per day for the full fiscal year 2016, which is higher than the 2015 impact
- **Indicative effects from Production Sharing Agreement (PSA-effect) and US royalties** are estimated to be around 135 mboe per day in 2016 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 [4]
- **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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