Press release

27 July 2016

Third quarter 2016

Statoil reports net operating income of USD 737 million and adjusted earnings of USD 636 million in the third quarter of 2016.

The third quarter was characterised by

- **Continued weak markets, planned maintenance and expensed exploration wells**
- **Strong operational performance and improvement programme on track**
- **Positive net cash flow and reduced net debt ratio**
- **Lowering 2016 capex and exploration guidance**

"The financial results were affected by low oil and gas prices, extensive planned maintenance and expensed exploration wells from previous periods. We delivered solid operational performance with strong cost improvements and progress on project execution", says Eldar Sætre, President and CEO of Statoil ASA.

"Strict prioritisation and continued good results from our improvement programme allow us to further lower our 2016 capex and exploration guidance", says Sætre.

"Our financial position remains robust with a positive net cash flow in the quarter. We continue with the scrip dividend programme and have reduced the net debt ratio", says Sætre.

Net operating income was USD 737 million in the third quarter compared to USD 883 million in the same period of 2015. The reduction was primarily due to lower oil and gas prices, expensed exploration wells and lower refinery margins. Continued progress on the improvement programme with reduced costs and strong operational performance contributing positively to the results.

Adjusted earnings were USD 636 million in the third quarter compared to USD 2.027 billion 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 261 million in the third quarter, down from positive USD 445 million in the same period last year. In the quarter we have expensed exploration wells capitalised in previous periods in the amount of USD 324 million. This is mainly related to two exploration wells in the Gulf of Mexico.

Statoil delivered equity production of 1,805 mboe per day in the third quarter compared to 1,909 mboe per day same period in 2015. The reduction was primarily due to planned maintenance and deferral of gas sales. Excluding these elements and divestments, the underlying production growth was 5% compared to the third quarter last year.

As of 30 September 2016, Statoil had completed 21 exploration wells. Adjusted exploration expenses in the quarter were USD 581 million, up from USD 412 million in the third quarter of 2015.

Cash flow from operations amounted to USD 7.0 billion after tax in the first nine months of 2016 compared to USD 11.4 billion in the same period last year. Organic capital expenditure was USD 7.8 billion in the first nine months of 2016, and net debt to capital employed was 30.3% at the end of the quarter.

Statoil is lowering its capex guidance for 2016 from USD 12 billion to around USD 11 billion and its exploration guidance for 2016 from USD 1.8 billion to around USD 1.5 billion. Production guidance remains unchanged, and expected annual organic production growth is 1% from 2014 to 2017 [7].

The board of directors has decided to pay a dividend of USD 0.2201 per ordinary share for the third quarter. Shareholders will have the option to receive the dividend for the third quarter 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 September 2016, compared to 0.5 in the same period last year.

Quarters			Change		First nine months		
Q3 2016	**Q2 2016**	**Q3 2015**	**Q3 on Q3**		**2016**	**2015**	**Change**
737	180	883	(16%)	Net operating income (USD million)	**1,977**	1,215	63%
636	913	2,027	(69%)	Adjusted earnings (USD million) [5]	**2,406**	7,855	(69%)
(427)	(302)	(343)	(24%)	Net income (USD million)	**(117)**	(4,047)	97%
(261)	(28)	445	N/A	Adjusted earnings after tax (USD million) [5]	**(168)**	2,280	N/A
1,805	1,959	1,909	(5%)	Total equity liquids and gas production (mboe per day) [4]	**1,939**	1,945	(0%)
40	39	43	(8%)	Group average liquids price (USD/bbl) [1]	**36**	48	(26%)

Statoil

THIRD QUARTER 2016 GROUP REVIEW

The third quarter financial results were influenced by continued weak markets, reduced production due to planned maintenance and lower refining margins. However, increased production in the international business and continuing cost reductions from on-going cost improvement initiatives affected earnings positively.

Total equity liquids and gas production [4] was 1,805 mboe per day in the third quarter of 2016, down 5% compared to third quarter of 2015 mainly due to higher planned maintenance activity and lower gas sales from the Norwegian continental shelf due to deferral of gas volumes in line with our value over volume strategy. Effects from redetermination and new production from ramp-up and start-up on various fields partially offset the decrease.

Total entitlement liquids and gas production [3] was down by 5% to 1,651 mboe per day compared to 1,741 mboe per day in the third quarter of 2015, due to the decrease in equity production as described above partially offset by 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 112 mboe per day in the third quarter of 2016 compared to 125 mboe per day in the third quarter of 2015.

Q3 2016	Quarters Q2 2016	Q3 2015	Change Q3 on Q3	Condensed income statement under IFRS (unaudited, in USD million)	First nine months 2016	2015	Change
12,106	10,895	13,614	(11%)	Total revenues and other income	**33,117**	46,549	(29%)
(5,793)	(5,251)	(6,388)	(9%)	Purchases [net of inventory variation]	**(15,215)**	(20,280)	(25%)
(2,453)	(2,172)	(2,823)	(13%)	Operating and administrative expenses	**(7,120)**	(8,917)	(20%)
(2,466)	(2,783)	(2,319)	6%	Depreciation, amortisation and net impairment losses	**(7,289)**	(12,744)	(43%)
(656)	(509)	(1,201)	(45%)	Exploration expenses	**(1,516)**	(3,393)	(55%)
737	180	883	(16%)	Net operating income	**1,977**	1,215	63%
(427)	(302)	(343)	(24%)	Net income	**(117)**	(4,047)	97%

Net operating income was USD 737 million in the third quarter of 2016, compared to USD 883 million in the third quarter of 2015. The 16% decrease was primarily due to the decline in gas prices. Lower liquids prices, decreased gas volumes sold mainly due to planned maintenance activity, deferral of gas production and lower refinery margins added to the decrease. Cost reductions as a result of the on-going cost improvement initiatives partially offset the decrease.

In addition, net operating income in the third quarter of 2016 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.

In the third quarter of 2015, net operating income was negatively affected by net impairments charges of USD 581 million mainly related to exploration assets and various other assets, and provisions for disputes of USD 399 million.

Adjusted operating and administrative expenses decreased by 10% to USD 2,249 million in the third quarter of 2016 mainly due to lower operation and maintenance costs as a result of the on-going cost improvement initiatives and lower diluent expenses caused by lower volumes and reduced prices. Higher transportation expenses and increased production costs from new fields coming on stream partially offset the reduction in costs.

Adjusted depreciation expenses decreased by 4% to USD 2,490 million in the third quarter of 2016, mainly due to lower net production and increased proved reserves estimates, partially offset by new investments and start-up and ramp-up of production on new fields.

Adjusted exploration expenses increased by USD 170 million to USD 581 million in the third quarter of 2016 mainly due to a higher portion of capitalised expenditures from earlier years being expensed this quarter. A higher capitalisation rate in the third quarter of 2015 added to the increase, and was only partially offset by lower exploration activity in the third quarter of 2016.

After total adjustments of net USD 101 million to net operating income, **Adjusted earnings** [5] were USD 636 million in the third quarter of 2016, down 69% compared to USD 2,027 million in the third quarter of 2015.

Q3 2016	Quarters Q2 2016	Q3 2015	Change Q3 on Q3	Adjusted earnings (in USD million)	First nine months 2016	2015	Change
11,862	11,291	13,702	(13%)	Adjusted total revenues and other income	**33,332**	45,499	(27%)
(5,905)	(5,192)	(6,170)	(4%)	Adjusted purchases [6]	**(15,321)**	(20,183)	(24%)
(2,249)	(2,203)	(2,511)	(10%)	Adjusted operating and administrative expenses	**(6,852)**	(8,183)	(16%)
(2,490)	(2,560)	(2,583)	(4%)	Adjusted depreciation expenses	**(7,468)**	(7,991)	(7%)
(581)	(423)	(412)	41%	Adjusted exploration expenses	**(1,284)**	(1,287)	(0%)
636	913	2,027	(69%)	Adjusted earnings [5]	**2,406**	7,855	(69%)
(261)	(28)	445	N/A	Adjusted earnings after tax [5]	**(168)**	2,280	N/A

Adjusted earnings after tax [5] were negative USD 261 million in the third quarter of 2016, which reflects an effective tax rate on adjusted earnings of 140.9%, compared to 78.0% in the third 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 improved by USD 535 million compared to the third quarter of 2015.

Cash flows provided by operating activities were reduced by USD 1,474 million compared to the third quarter of 2015. The decrease was mainly due to reduced liquids and gas prices, partially offset by lower taxes paid.

Cash flows used in investing activities were reduced by USD 1,719 million compared to the third quarter of 2015. The decrease was mainly due to significantly lower capital expenditures.

Cash flows provided by financing activities were reduced by USD 89 million compared to the third quarter of 2015. The decrease is mainly due to the reduced cash dividend following the introduction of the scrip dividend.

Free cash flow [11] in the third quarter of 2016 was slightly positive mainly due to lower capital expenditures offsetting the decrease in revenues.

First nine months 2016

Net operating income was USD 1,977 million in the first nine months of 2016 compared to USD 1,215 million in the first nine months of 2015. The increase was primarily due to significantly lower net impairment charges in the first nine months of 2016 compared to the same period last year, in addition to reduced operating costs. The increase in net operating income was partially offset by the lower liquids and gas prices, reduced gain from sale of assets, and lower refinery margins.

In the first nine months of 2016, net operating income was negatively impacted by changes in fair value of derivatives of USD 167 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.

In the first nine months of 2015, net operating income was negatively impacted by net impairment charges of USD 6,906 million and reduction in fair values of derivatives of USD 452 million. Gain from sale of assets of USD 1,424 million mainly related to the divestment of the Shah Deniz project impacted net operating income positively.

Adjusted operating and administrative expenses decreased by 16% to USD 6,852 million in the first nine months of 2016. The on-going cost improvement initiatives resulted in lower operational and maintenance cost and lower administrative expenses. The development in the NOK/USD exchange rate and reduced diluent cost added to the decrease. Higher operating costs from new fields coming on stream partially offset the decrease.

Adjusted depreciation expenses decreased by 7% to USD 7,468 million in the first nine months of 2016, mainly due to lower depreciation on mature fields, the NOK/USD exchange rate development and decreased asset retirement obligations. The decrease was partially offset by start-up and ramp-up of new fields.

Adjusted exploration expenses remained stable in the first nine months of 2016 compared to the same period in 2015. Lower drilling costs were offset by lower capitalisation rate of current exploration expenditures and a higher portion of capitalised expenditures from earlier years being expensed in the first nine months of 2016.

After total adjustments of USD 429 million to net operating income as described above, **Adjusted earnings** were USD 2,406 million in the first nine months of 2016, down 69% from USD 7,855 million in the same period last year.

Adjusted earnings after tax were negative USD 168 million in the first nine months of 2016 compared to USD 2,280 million in the first nine months of 2015. The effective tax rate on adjusted earnings was 107.0%, compared to an effective tax rate of 71.0% 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 improved by USD 2,765 million compared to the first nine months of 2015.

Cash flows provided by operating activities were reduced by USD 4,403 million compared to the first nine months of 2015. The decrease was mainly due to reduced liquids and gas prices, partially offset by lower taxes paid.

Cash flows used in investing activities were reduced by USD 6,742 million compared to the first nine months of 2015. The decrease was mainly due to significantly lower capital expenditures and reduced proceeds from sale of assets.

Cash flows used in financing activities increased by USD 451 million compared to the first nine months of 2015. The change is mainly due to reduced cash flow from finance debt, offset by increased collateral received related to derivatives and reduced cash dividend due to the scrip dividend.

Free cash flow [11] in the first nine months of 2016 was negative USD 3,023, a decrease of USD 2,690 million compared to the first nine months of 2015 mainly due to the decrease in revenues.

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 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 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 40 mboe per day in the fourth 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 145 mboe per day in 2016 based on an oil price of USD 40 per barrel and 170 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

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)