MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Aker BP's rating to Ba1, stable outlook

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London, 05 March 2018 -- Moody's Investors Service, ("Moody's") has today upgraded the Corporate Family Rating (CFR) of Aker BP ASA (Aker BP) to Ba1 from Ba2 and the Probability of Default Rating (PDR) to Ba1-PD from Ba2-PD. Concurrently, Moody's has also upgraded the rating on the $400 million senior unsecured notes due 2022 to Ba2 from Ba3. The outlook on all ratings remains stable.

RATINGS RATIONALE

The upgrade of the rating to Ba1 from Ba2 reflects the growing production of Aker BP, both organically and inorganically, supported by a stronger financial profile with gross adjusted debt/EBITDA expected to be maintained below 2.0x in 2018-2020. Inorganic growth is a result of the Hess Norge acquisition for $2.0 billion, which was 25% funded by equity and the remaining ($1.5 billion) was funded temporarily by debt. The company is now expected to receive $1.5 billion in tax losses as a cash refund from the government in 2H 2018, which will be used to repay the debt, resulting in gross debt/EBITDA to fall to around 1.0x in 2018 from 1.7x in 2017. The Ba1 rating reflects the company's strong track record of acquiring the right assets while maintaining a prudent financial policy. The production increased from 118 kboepd in 2016 to 139 kboepd in 2017 with expectations of further increase to 150-160 kboepd in 2018, as a result of the acquisition. This also demonstrates strong shareholder support to grow the business from Aker ASA (40% ownership) and BP p.l.c. (30% ownership).

The Ba1 corporate family rating reflects Aker BP's (1) strong financial profile with EBITDA margin expected to be maintained above 70% and gross adjusted debt/EBITDA to remain below 2.0x in 2018-20 assuming an oil price of $50/bbl in 2018 and $55/bbl in 2019-20 (2) good liquidity profile with cash balance of $233 million and $2.67 billion of availability under its reserve based lending (RBL) facility as of 31st December 2017 (3) strong presence as a mid-sized E&P operator in the Norwegian Continental Shelf (NCS) supported by a low cost profile with opex cost expected at $12/bbl in 2018 and a stable operating environment in Norway (Aaa, stable) (4) exposure to a supportive tax regime in NCS including possible cash refunds of tax losses from the government if petroleum activities cease (5) ownership structure with two strong shareholders Aker ASA and BP p.l.c. (A1, positive) from whom support could be derived in case of need and, (6) strong upside growth potential after the start-up of Johan Sverdrup project, in which Aker BP retains a 11.6% interest, currently expected in Q4 2019.

The rating remains constrained by the (1) lack of geographic diversification of the company's production on the NCS (2) smaller size of the production asset base, compared to other US peers, with production expected to average at around 150 kboepd in 2018-19 (3) mature and declining production of the Alvheim and Skarv assets, mitigated by the new investments in these fields, as well as expected ramp-up of Johan Sverdrup from 2020 (4) high capex exposure in the coming years mainly concentrated on the 3 new PDOs (Plan for Development & Operation) submitted in 2017, development of increased stake in Valhall/Hod fields and Johan Sverdrup project which could result in negative free cash flow (FCF) generation in 2019 assuming an oil price of $55/bbl (5) moderate execution risks on the Johan Sverdrup project, however, the company benefits from a strong partner and operator, Statoil ASA (Aa3, stable) which has a strong credit profile and the required expertise and technology to execute such large projects.

Looking ahead, Moody's expects the company's financial profile to improve further in 2018 from 2017, due to increased size from the acquisition and assuming that the entire $1.5 billion tax loss refund will be used to repay debt. While the financial profile could deteriorate marginally in 2019 due to the expected decline in production, it should remain still fairly strong compared to similarly rated peers and should recover strongly, from 2020 onwards, assuming the Johan Sverdrup project starts producing on time. The company generated positive FCF (after abandonment expense) in 2017 of around $700 million. Moody's expects the company to generate positive FCF (after abandonment expense and tax refund) of around $900 million in 2018, which should turn negative in 2019 to around $-450 million and return to positive FCF in 2020 and beyond in the range of $250-400 million. Capex and dividend payments are expected to be around $1.0-1.2 billion and $450-550 million in 2018-19, respectively. Moody's believes these dividend payments are material, however, expects that the company would reduce the dividends, if the oil price deteriorates. Adjusted gross debt/EBITDA ratio is expected to be maintained below 2.0x in 2018-2020, assuming an oil price of $50/bbl in 2018 and $55/bbl in 2019-20. The company is expected to maintain the unleveraged cash margin above $30/bbl in 2018-20 due to its competitive cost position.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's view that Aker BP will maintain its strong financial profile in the longer term, despite some marginal deterioration in 2019 due to the declining production and expectations that the company will receive in cash the tax loss refund in 2H 2018. The outlook also reflects Moody's expectations of maintaining a good liquidity profile and conservative financial policy in case of any major acquisitions, with no significant change in the stable operating environment. The outlook assumes a timely delivery of the Johan Sverdrup project.

WHAT COULD CHANGE THE RATING -- UP

The rating could be upgraded to Baa3 if Aker BP demonstrates a strong growth production profile, consistently exceeding 250,000 boepd, after a timely delivery of Johan Sverdrup project and adjusted RCF/Debt maintained above 40% on a sustained basis, while retaining its competitive cost position. The rating upgrade would also require the company to maintain a strong liquidity profile and prudent financial policy.

WHAT COULD CHANGE THE RATING -- DOWN

The rating could be downgraded to Ba2 if the average production falls below 150,000 boepd on a consistent basis and/or if there is a deterioration in the financial profile of the company with adjusted RCF/Debt below 30% on a sustained basis. The rating could also be downgraded if there is a sustained negative FCF generation or weaker liquidity profile.

STRUCTURAL CONSIDERATIONS

The Ba2 rating assigned on the $400 million senior unsecured notes is one notch below the Ba1 CFR and it reflects the sizable secured debt ($1.3 billion as of 31st December 2017) of the RBL ranking ahead of the notes within the capital structure. The Ba2 rating also reflects the expectation of a higher recovery rate for the notes compared to similarly rated peers due to the favourable tax regime that Aker BP benefits from in Norway. The tax losses are refunded in cash by the government if petroleum activities are discontinued on the NCS.

The principal methodology used in these ratings was Independent Exploration and Production Industry published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

CORPORATE PROFILE

Aker BP ASA is a Norwegian oil and gas company primarily involved in the exploration, development and production of petroleum resources on the Norwegian Continental Shelf. Its production assets are entirely located in Norway and the company operates around 99% of its fields' portfolio. In 2017, Aker BP reported an average production (on a working interest basis) of 138,800 barrels of oil equivalent per day, revenues of $2.6 billion and 2P proved plus probable (2P) reserves of 913 million barrels of oil equivalent. The company benefits from a 18 year reserve life (2P/ Total Annual Production). Aker BP is owned 40% by Aker ASA, 30% by BP p.l.c. (A1, positive) and the remaining is free float.

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