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Press release

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Equinor fourth quarter 2019 and year end results

Equinor reports adjusted earnings of USD 3.55 billion and USD 1.19 billion after tax in the fourth quarter of 2019. IFRS net operating income was USD 1.52 billion and the IFRS net income was negative USD 0.23 billion, following net impairments of USD 1.41 billion.

The fourth quarter and full year were characterised by:

- Solid financial results in a quarter with lower commodity prices
- Strong operational performance in 2019, and record high production in the fourth quarter
- Early start-up and effective ramp up of Johan Sverdrup. New projects on stream in 2019 represent 1.2 billion boe in expected resources net to Equinor, at an average break-even oil price around USD 30 per barrel
- Renewables projects in development in 2019 are expected to add 2.8 GW of electricity capacity to Equinor
- Strong growth in capital distribution in 2019, reflecting 13% growth in quarterly cash dividend and the launch of a USD 5 billion share buy-back programme
- Increase in quarterly cash dividend by 4% to USD 0.27 per share, and launch of an around USD 675 million second tranche of the share buy-back programme, subject to approvals by the annual general meeting

"Record high production, reduced costs and continued strong capital discipline contributed to solid results in a quarter with lower commodity prices. For the year we delivered competitive returns and strong growth in capital distribution. Going forward, we expect to grow production, returns and cash flow from a world-class project portfolio, representing 6 billion barrels to Equinor with an average break-even oil price below 35 dollars per barrel. The board proposes an increase in the quarterly dividend of 4% and the launch of the second tranche of our 5 billion dollar share buy-back programme, based on an even distribution for the rest of the period," says Eldar Sætre, President and CEO of Equinor ASA.

"We started production at Johan Sverdrup in October last year, ahead of schedule and more than 30% below the original cost estimate. We expect the entire phase 1 investment to be paid back already by the end of this year, less than 15 months after the first well was put in production," says Sætre.

"2019 was truly a game-changing year for our renewables business. We made the investment decision for Hywind Tampen in Norway and won the opportunities to develop Empire Wind offshore New York and Dogger Bank, the world's largest offshore wind development, in the UK. Renewables projects in development will add 2.8 gigawatts of electricity capacity to Equinor, more than five-fold our current capacity," says Sætre.

Adjusted earnings [5] were USD 3.55 billion in the fourth quarter, down from USD 4.39 billion in the same period in 2018. Adjusted earnings after tax [5] were USD 1.19 billion, down from USD 1.54 billion in the same period last year. Lower prices for both liquids and gas impacted the earnings for the quarter.

Adjusted operating costs and administrative expenses were down 8% from the same quarter last year. The Marketing, Midstream and Processing segment reported strong trading results and obtained high prices in a challenging market. Results in the E&P International segment were impacted by low US gas prices, higher field development costs and higher than normal expensing of previously capitalised exploration costs.

IFRS net operating income was USD 1.52 billion in the fourth quarter, down from USD 6.75 billion in the same period of 2018. IFRS net income was negative USD 0.23 billion in the fourth quarter, down from positive USD 3.37 billion in the fourth quarter of 2018. Net operating income was impacted by net impairment charges of USD 1.41 billion, of which USD 1.28 billion relates to assets on the Norwegian continental shelf, mainly as a result of change in method for including tax uplift in impairment evaluations.

For the full year, adjusted earnings [5] were USD 13.5 billion, down from USD 18.0 billion in 2018. IFRS net income was USD 1.85 billion, down from USD 7.54 billion in 2018.

Equinor delivered record high total equity production of 2,198 mboe per day in the fourth quarter, up 1% from the same period in 2018. The flexibility in the gas fields was used to defer production into periods with higher expected gas prices. Successful start-up and ramp-up of new fields as well as new well capacity, contributed to growth in production. The Johan Sverdrup field was put in production 5 October 2019 and is currently producing more than 350.000 barrels per day from eight wells. The field is expected to reach plateau during the summer of 2020.

As of the end of fourth quarter 2019, Equinor has completed 42 exploration wells with 18 commercial discoveries. Adjusted exploration expenses in the quarter were USD 0.44 billion, compared to USD 0.42 billion in the same quarter of 2018.

The organic proved reserve replacement ratio (RRR) was 83%, with a three-year average of 140%. With 6 billion barrels in proved reserves, Equinor's reserves to production ratio (R/P) was 8.6 years.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 21.8 billion in 2019, compared to USD 27.6 billion in 2018. Organic capital expenditure [5] was USD 10.0 billion for 2019. At year end, net debt to capital employed[1] was 23.8%. Increased oil volumes in transit to capture higher value and accelerated tax payments in Norway impacted the net debt ratio with an increase of around two percentage points. Following the implementation of IFRS 16, net debt to capital employed[1] was 29.5%.

The board of directors proposes to the annual general meeting to increase the dividend by 4% to USD 0.27 per share for the fourth quarter. Equinor is on track with executing its share buy-back programme of up to USD 5 billion over a period until the end of 2022, and will launch a second tranche of USD 225 million in the market, corresponding to around USD 675 million including the Norwegian State share, from around 18 May to 28 October 2020, subject to renewal of authorisation to execute share buy-backs at the annual general meeting.

Average CO2-emissions from Equinors operated upstream production, on a 100% basis, was 9.5 kg per barrel in 2019.

The twelve-month average Serious Incident Frequency (SIF) was 0.6 for 2019, compared to 0.5 in 2018. The twelve-month average Total Recordable Injury Frequency (TRIF) was 2.5 for 2019, compared to 2.8 in 2018.

Capital markets update

Today, Equinor presents its update to the capital markets, focusing on key deliveries:

- Growing production, cash flow and returns:
  - Expecting around 7% production growth in 2020 and to deliver an average annual production growth of around 3% from 2019 to 2026
  - Capacity to generate around USD 30 billion in organic cash flow[2] from 2020 to 2023, after taxes and organic investments, and around 15% return on average capital employed (ROACE) [5] in 2023, at an assumed oil price of USD 65 per barrel
- Driving long term value creation in line with the Paris Agreement. Equinor aims to:
  - Strengthen its industry leading position on carbon efficient production, aiming to reach carbon neutral global operations by 2030
  - Grow profitably within renewables, developing as a global offshore wind major
  - Reduce the net carbon intensity, from initial production to final consumption, of energy produced by at least 50% by 2050

"Equinor is already delivering competitive returns, and we expect to grow production, returns and cash flow going forward. We are investing in a world class project portfolio coming on stream towards 2026, representing 6 billion barrels to Equinor with an average break-even oil price below 35 dollars per barrel. In addition, Johan Sverdrup phase 1 will contribute to strong growth at the Norwegian continental shelf. High quality projects like Bay du Nord in Canada, Rosebank in the UK and BM-C-33 and Bacalhau in Brazil will deliver high profitable growth internationally," says Sætre.

During the last few years, Equinor has substantially strengthened its competitiveness and improved its project portfolio. Equinor is today increasing its ambition, aiming to achieve improvements with a cash flow effect of more than USD 3 billion from 2020 to 2025 through digital solutions and new ways of working. Equinor delivered industry leading unit production cost of USD 5.3 per barrel in 2019, and is targeting a 5% improvement towards 2021.

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[1] This is a non-GAAP figure. Comparison numbers and reconciliation to IFRS are presented in the table Calculation of capital employed and net debt to capital employed ratio as shown under the Supplementary section in the report.

[2] Defined as cash flow from operating activities after tax before working capital and after organic investments.

The ambition to reduce net carbon intensity by at least 50% by 2050 takes into account scope 1, 2 and 3 emissions, from initial production to final consumption. By 2050 each unit of energy produced will, on average, have less than half of the emissions compared to today. The ambition is expected to be met primarily through significant growth in renewables and changes in the scale and composition of the oil and gas portfolio. Operational efficiency, CCUS and hydrogen will also be important, and recognised offset mechanisms and natural sinks may be used as a supplement[3].

In 2026, Equinor expects a production capacity from renewable projects of 4 to 6 GW, Equinor share, mainly based on the current project portfolio. This is around 10 times higher than today's capacity, implying an annual average growth rate of more than 30%. Towards 2035, Equinor expects to increase installed renewables capacity further to 12 to 16 GW, dependent on availability of attractive project opportunities. Equinor expects to achieve unlevered real project returns of 6 to 10% and can achieve significantly higher return on equity investments through portfolio optimisation and efficient use of project financing.

"Today we are setting new short-, mid- and long-term ambitions to reduce our own greenhouse gas emissions and to shape our portfolio in line with the Paris Agreement. It is a good business strategy to ensure competitiveness and drive change towards a low carbon future, based on a strong commitment to value creation for our shareholders," says Sætre.

"Equinor's strategic direction is clear. We are developing as a broad energy company, leveraging the strong synergies between oil, gas, renewables, CCUS and hydrogen. We will continue addressing our own emissions in line with the emitter pays principle. But, we can and will do more. As part of the energy industry, we must be part of the solution to combat climate change and address decarbonisation more broadly, in line with changes in society," says Sætre.

Finally, Equinor announces its updated outlook:

- Equinor expects average annual organic capex [5] of USD 10-11 billion in 2020 and 2021, and around USD 12 billion for 2022 and 2023
- Equinor expects to deliver around 7% growth in production in 2020, and an average annual production growth of around 3% from 2019 to 2026 [7]
- Equinor expects exploration activity of around USD 1.4 billion in 2020[4]

	Quarters		Change			Full year	
Q4 2019	**Q3 2019**	**Q4 2018**	**Q4 on Q4**	**(in USD million, unless stated otherwise)**	**2019**	**2018**	**Change**
1,516	(469)	6,745	(78%)	Net operating income/(loss)	**9,299**	20,137	(54%)
3,550	2,593	4,387	(19%)	Adjusted earnings [5]	**13,484**	17,959	(25%)
(230)	(1,107)	3,367	N/A	Net income/(loss)	**1,851**	7,538	(75%)
1,186	1,077	1,537	(23%)	Adjusted earnings after tax [5]	**4,925**	6,693	(26%)
2,198	1,909	2,170	1%	Total equity liquids and gas production (mboe per day) [4]	**2,074**	2,111	(2%)
56.5	52.5	59.0	(4%)	Group average liquids price (USD/bbl) [1]	**56.0**	63.1	(11%)

GROUP REVIEW

Fourth quarter 2019

Total equity liquids and gas production [4] was 2,198 mboe per day in the fourth quarter of 2019, up 1% compared to 2,170 mboe per day in the fourth quarter of 2018. The increase was mainly due to start-up of new fields on the NCS and in the E&P International reporting segment in addition to new wells in the US onshore business, partially offset by expected natural decline, operational challenges and reduced flexible gas production due to lower prices.

Total entitlement liquids and gas production [3] was 2,056 mboe per day in the fourth quarter of 2019, up 2% compared to 2,020 mboe per day in the fourth quarter of 2018. In addition to the factors mentioned above, production was positively influenced by lower effects from production sharing agreements (PSA) [4], and lower US royalty volumes. The net effect of PSA and US royalties was 142 mboe per day in total in the fourth quarter of 2019 compared to 150 mboe per day in the fourth quarter of 2018.

[3] See Forward-looking statements.
[4] Excluding signature bonuses and field development costs.

Q4 2019	Quarters Q3 2019	Q4 2018	Change Q4 on Q4	Condensed income statement under IFRS (unaudited, in USD million)	2019	Full year 2018	Change
15,169	15,610	22,438	(32%)	Total revenues and other income	**64,357**	79,593	(19%)
(6,603)	(7,667)	(9,821)	(33%)	Purchases [net of inventory variation]	**(29,532)**	(38,516)	(23%)
(2,405)	(2,922)	(2,701)	(11%)	Operating and administrative expenses	**(10,469)**	(10,286)	2%
(4,165)	(4,619)	(2,729)	53%	Depreciation, amortisation and net impairment losses	**(13,204)**	(9,249)	43%
(480)	(871)	(442)	9%	Exploration expenses	**(1,854)**	(1,405)	32%
1,516	(469)	6,745	(78%)	Net operating income/(loss)	**9,299**	20,137	(54%)
(230)	(1,107)	3,367	N/A	Net income/(loss)	**1,851**	7,538	(75%)

Net operating income was USD 1,516 million in the fourth quarter of 2019, compared to USD 6,745 million in the fourth quarter of 2018. The decrease was primarily due to lower average prices for liquids and gas and impairment losses mainly related to assets on the NCS. Lower unrealised derivatives gain and inventory hedging effects in the MMP reporting segment, and higher volumes in inventory with unrealised profit written down to production cost contributed to the decrease, partially offset by the NOK/USD currency exchange rate development.

In the fourth quarter of 2019, net operating income was negatively impacted mainly by net impairments of USD 1,425 million which includes USD 23 million related to associated companies, changes in fair value of derivatives and inventory hedge contracts of USD 282 million and higher volumes in inventory with unrealised profit written down to production cost of USD 591 million. Net operating income was positively affected by a net gain from the sale of assets of USD 185 million.

In the fourth quarter of 2018, net operating income was positively impacted by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 1,192 million, the net effect of a reduction in provision of USD 682 million related to the Agbami redetermination process in Nigeria and a net gain on sale of assets of USD 546 million.

Q4 2019	Quarters Q3 2019	Q4 2018	Change Q4 on Q4	Adjusted earnings (in USD million)	2019	Full year 2018	Change
15,336	15,352	19,874	(23%)	Adjusted total revenues and other income	**63,335**	77,451	(18%)
(6,048)	(7,642)	(9,784)	(38%)	Adjusted purchases [6]	**(29,024)**	(38,486)	(25%)
(2,496)	(2,421)	(2,705)	(8%)	Adjusted operating and administrative expenses	**(9,850)**	(10,172)	(3%)
(2,806)	(2,432)	(2,582)	9%	Adjusted depreciation, amortisation and net impairment losses	**(9,775)**	(9,706)	1%
(437)	(263)	(417)	5%	Adjusted exploration expenses	**(1,203)**	(1,128)	7%
3,550	2,593	4,387	(19%)	Adjusted earnings [5]	**13,484**	17,959	(25%)
1,186	1,077	1,537	(23%)	Adjusted earnings after tax [5]	**4,925**	6,693	(26%)

For items impacting net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

Adjusted total revenues and other income were USD 15,336 million in the fourth quarter of 2019 compared to USD 19,874 million in the fourth quarter of 2018. Lower average prices for liquids and gas negatively affected Adjusted total revenues and other income as well as Adjusted purchases [6].

Adjusted operating and administrative expenses were USD 2,496 million in the fourth quarter of 2019, compared to USD 2,705 million in the fourth quarter of 2018. The 8% decrease was mainly due to the implementation of IFRS 16[5] and the NOK/USD currency exchange rate development. Lower preparation for operation costs on the NCS and decreased royalties and production fees in the E&P International reporting segment added to the decrease, partially offset by increased transportation costs mainly due to liquid volumes and ramp up of new fields on the NCS.

[5] See note 8 Changes in accounting policies 2019 to the Condensed interim financial statements.

Adjusted depreciation, amortisation and net impairment losses were USD 2,806 million in the fourth quarter of 2019, compared to USD 2,582 million in the fourth quarter of 2018. The increase was mainly due to ramp-up of new fields on the NCS and in the UK, the implementation of IFRS 16[5] and increased investment mainly related to North America. Higher proved reserves estimates, the NOK/USD exchange rate development and a net decrease in field specific production partially offset the increase.

Adjusted exploration expenses were USD 437 million in the fourth quarter of 2019, an increase of USD 20 million compared to the fourth quarter of 2018. Higher field development costs, a lower portion of exploration expenditures being capitalised and a higher portion of exploration expenditure capitalised in earlier years being expensed this quarter were partially offset by lower drilling and seismic costs. For more information, see the table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[6] of USD 2,034 million to net operating income, **Adjusted earnings** [5] were USD 3,550 million in the fourth quarter of 2019, a 19% reduction from USD 4,387 million in the fourth quarter of 2018.

Adjusted earnings after tax [5] were USD 1,186 million in the fourth quarter of 2019, which reflects an effective tax rate on adjusted earnings of 66.6%, compared to 65.0% in the fourth quarter of 2018. The increase in the effective tax rate was mainly due to decreased adjusted earnings in the fourth quarter of 2019 in entities with lower than average tax rates, and in entities without recognised taxes.

Cash flows provided by operating activities decreased by USD 2,427 million compared to the fourth quarter of 2018. The decrease was mainly due to lower liquids and gas prices, a change in working capital and increased derivative payments, partially offset by decreased tax payments.

Cash flows used in investing activities increased by USD 1,351 million compared to the fourth quarter of 2018. The increase was mainly due to increased financial investments, partially offset by lower capital expenditures and increased proceeds from the sale of assets.

Cash flows used in financing activities increased by USD 687 million compared to the fourth quarter of 2018. The increase was mainly due to increased payment of short-term debt, share buy-back and lease payments being reclassified to financing cash flow following the IFRS 16[2] implementation, partially offset by a bond issue in the fourth quarter of 2019.

Total cash flows decreased by USD 4,465 million compared to the fourth quarter of 2018.

Free cash flow [5] in the fourth quarter of 2019 was negative USD 513 million compared to USD 637 million in the fourth quarter of 2018. The decrease was mainly due to lower liquids and gas prices, increased derivative payments and share buy-back, partially offset by decreased tax payments, lower capital expenditures, increased proceeds from the sale of assets and lease payments being reclassified to financing cash flow following the IFRS 16[5] implementation.

Full year 2019

Net operating income was USD 9,299 million in 2019 compared to USD 20,137 million in 2018. The 54% decrease was primarily driven by lower liquids and gas prices and liquids volumes. Higher net impairments mainly related to unconventional onshore assets in North America and offshore assets on the NCS in addition to increased provisions in the MMP reporting segment related to the damage to the South Riding Point oil terminal, contributed to the decrease. The decrease was partially offset by a net gain on the sale of assets mainly related to the E&P Norway reporting segment in 2019.

In 2019, net operating income was negatively affected mainly by net impairments of USD 4,103 million[7] which includes USD 23 million related to associated companies, provisions of USD 485 million and a change in accounting policy of USD 123 million and net overlift effect of USD 134 million. Net operating income was positively impacted by a net gain on the sale of assets of USD 1,184 million and operational storage effects of USD 121 million in 2019.

In 2018, net operating income was positively affected by a net gain on the sale of assets of USD 654 million, a reduction in provision of USD 564 million, changes in fair value of derivatives and inventory hedge contracts totalling USD 375 million, in addition to net impairment reversals of USD 315 million and an implementation effect of USD 287 million related to a change in accounting policy for lifting imbalances. Net operating income was negatively impacted by operational storage effects of USD 132 million in 2018.

Adjusted total revenues and other income were USD 63,335 million in 2019 compared to USD 77,451 million in the 2018. Lower average prices and volumes for liquids and gas negatively affected Adjusted total revenues and other income, as well as Adjusted purchases [6].

Adjusted operating and administrative expenses were USD 9,850 million in 2019, a decrease of USD 322 million compared to 2018.

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[6] For items impacting net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.
[7] For more information, see note 2 Segments to the Condensed interim financial statement and notes.

The decrease was primarily impacted by the implementation of IFRS 16[5] and the NOK/USD exchange rate development, partially offset by increased transportation costs mainly related to liquids volumes and higher operation and maintenance costs mainly related to new fields.

Adjusted depreciation, amortisation and net impairment losses were USD 9,775 million in 2019, the same level as in 2018. Higher proved reserves estimates on several fields, no depreciation effect on one of the fields on the NCS and a net decrease in production were offset by increased investments in the E&P International segment, ramp-up of new fields and the implementation of IFRS 16[4].

Adjusted exploration expenses increased by USD 75 million to USD 1,203 million in 2019, primarily due to higher drilling and field development costs and higher portion of exploration expenditure capitalised in earlier years being expensed. A higher portion of exploration expenses being capitalised and lower seismic costs compared to 2018 partially offset the increase. For more information, see table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[8] of USD 4,185 million to net operating income, **Adjusted earnings** [5] were USD 13,484 million in 2019, down 25% from USD 17,959 million in 2018.

Adjusted earnings after tax [5] were USD 4,925 million in 2019, compared to USD 6,693 million in 2018. The effective tax rate on adjusted earnings was 63.5% in 2019, compared to an effective tax rate of 62.7% in 2018. The increase in the effective tax rate was mainly due to decreased adjusted earnings in 2019 in entities with lower than average tax rates, and in entities without recognised taxes.

Cash flows provided by operating activities decreased by USD 5,946 million compared to 2018. The decrease was mainly due to lower liquids and gas prices, increased derivative payments and a change in working capital, partially offset by decreased tax payments.

Cash flows used in investing activities decreased by USD 618 million compared to 2018. The decrease was mainly due to lower cash flow used for business combinations, lower capital expenditures and increased proceeds from sale of assets, partially offset by increased financial investments.

Cash flows used in financing activities increased by USD 472 million compared to 2018. The increase was mainly due to lease payments being reclassified to financing cash flow following the IFRS 16[9] implementation, increased dividend paid and share buy-back partially offset by decreased repayment of finance debt and higher cash inflow from collateral related to derivatives.

Total cash flows decreased by USD 5,800 million compared to 2018.

Free cash flow [5] for 2019 was negative USD 175 million compared to USD 3,125 million in 2018. The decrease was mainly due to lower liquids and gas prices, increased derivative payments, increased dividend paid and share buy-back, partially offset by lower cash flow used for business combinations, lower capital expenditures, lease payments being reclassified to financing cash flow following the IFRS 16[9] implementation, increased proceeds from sale of assets and decreased tax payments.

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[8] For items impacting net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

[9] See note 8 Changes in accounting policies 2019 to the Condensed interim financial statements.

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OUTLOOK

- **Organic capital expenditures** [5] are estimated at an annual average of USD 10-11 billion for 2020-2021 and around USD 12 billion annual average for 2022-2023
- Equinor intends to continue to mature its large portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.4 billion for 2020, excluding signature bonuses and field development costs
- Equinor´s ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2019 – 2026, **production growth** [7] is expected to come from new projects resulting in around 3% CAGR (Compound Annual Growth Rate)
- **Production** [7] for 2020 is estimated to be around 7% above 2019 level
- **Scheduled maintenance activity** is estimated to reduce the quarterly production by approximately 20 mboe per day in the first quarter of 2020. In total, maintenance is estimated to reduce equity production by around 45 mboe per day for the full year of 2020

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 - https://www.equinor.com/quarterlyreports

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