Press release

24 July, 2020

Equinor second quarter 2020 results

Equinor reports adjusted earnings of USD 0.35 billion and USD 0.65 billion after tax in the second quarter of 2020. IFRS net operating income was negative USD 0.47 billion and the IFRS net income was negative USD 0.25 billion.

The second quarter was characterised by

- Financial results impacted by the Covid-19 pandemic and very low commodity prices.
- Strong trading results, capturing significant value in volatile markets.
- Overall solid operational performance and cost reductions.
- After tax results positively impacted by temporary tax changes in Norway.
- Net debt ratio(1) increased to 29.3% due to very low commodity prices and tax payments from 2019 earnings.

"Our financial results for the second quarter were impacted by very low realised oil and gas prices due to the Covid-19 pandemic, but also by a strong trading performance in volatile markets. We now see gradual reopening of society in some parts of the world, while other regions are still heavily impacted by the pandemic. Equinor has taken forceful actions to protect the safety of our people, and to contribute positively in society and mitigate the spread of the virus. We have also been able to maintain stable operations and implemented several measures to safeguard our financial strength," says Eldar Sætre, President and CEO of Equinor ASA.

"We have reduced costs, maintained solid operational performance and continued to prioritise value over volume by deferring significant flexible gas production to periods with higher expected prices. We also continued to progress our highly competitive project portfolio, supported by active policy measures in Norway enabling the industry to continue to work on planned projects that will stimulate new investments and maintain activity in a challenging period. Since the start of the quarter, we have signed contracts and framework agreements for more than 10 billion kroner to competitive suppliers in Norway," says Sætre.

"We expect market volatility to continue going forward. The long-term market implications from Covid-19, with possible lower demand and reduced investments in the industry, remain uncertain. However, Equinor's strategic direction remains firm and we are committed to develop Equinor as a broad energy company to create value in a low carbon future. Together with our partners, we have taken positive investment decisions for transportation and storage of CO2 in the Northern Lights project and for the Sleipner field to be partly electrified with renewable energy from shore," says Sætre.

Adjusted earnings [5] were USD 0,35 billion in the second quarter, down from USD 3.15 billion in the same period in 2019. Adjusted earnings after tax [5] were USD 0.65 billion, down from USD 1.13 billion in the same period last year. Very low realised prices for both liquids and gas impacted the earnings for the quarter, while trading operations in volatile markets captured significant value.

Equinor is on track to deliver on the announced plan for reducing costs (2) for 2020 by around USD 700 million compared to original estimates. Upstream operating costs and the unit production costs are significantly reduced from the second quarter of 2019.

For E&P Norway Equinor saw very low commodity prices and production was impacted by deferring significant gas volumes to later periods to capture higher expected value as well as government imposed oil production curtailments.

As from the second quarter, Equinor has established E&P USA as a separate reporting segment. Results in this segment were impacted by very low commodity prices, while significant cost reductions contributed positively. Results in the E&P International segment (excluding E&P USA) were also impacted by low prices, despite a reduction of operating costs.

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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] Operating cost (excluding variable cost such as transportation and processing), sales and general administration and field development costs. Expensed exploration costs are not included.

The Marketing, midstream and processing segment delivered a record high result in the quarter, particularly from crude oil and liquids trading where values were extracted from a market in contango and ability to utilise the asset portfolio. In addition, there was positive a contribution from renegotiations of gas contracts.

New energy solutions delivered an around neutral result in the quarter, including costs related to maturation of new projects.

IFRS net operating income was negative USD 0.47 billion in the second quarter, down from USD 3.52 billion in the same period of 2019. IFRS net income was negative USD 0.25 billion in the second quarter, down from USD 1.48 billion in the second quarter of 2019. Net operating income was impacted by net impairment charges of USD 0.37 billion, mainly related to a gas processing plant in Norway and exploration.

Equinor delivered total equity production of 2,011 mboe per day in the second quarter, at the same level as in the same period in 2019, with strong growth in liquids production on the NCS. Adjusting for portfolio transactions and government-imposed curtailments, this represents a production growth of more than 4% compared to the second quarter of 2019. The flexibility in some gas fields was used to defer significant production into periods with higher expected gas prices. Successful ramp-up of new fields, including Johan Sverdrup, as well as new well capacity, contributed to growth in production.

At the end of the second quarter Equinor has completed 15 exploration wells with 6 commercial discoveries and 2 wells under evaluation. 17 wells were ongoing at the quarter end. Adjusted exploration expenses in the quarter were USD 0.28 billion, compared to USD 0.24 billion in the same quarter of 2019.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 6.86 billion in the first half of 2020, compared to USD 12.0 billion in the first half of 2019. Organic capital expenditure [5] was USD 4.11 billion for the first six months of 2020. At the closing of the quarter net debt to capital employed[(3)] was 29.3%, up from 25.8% at the end of the first quarter, mainly as a result of very low commodity prices and tax payments related to 2019 earnings. Following the implementation of IFRS 16, net debt to capital employed[(3)] was 34.7%.

The board of directors has decided a cash dividend of USD 0.09 per share for the second quarter 2020.

The twelve-month average Serious Incident Frequency (SIF) for the period ending 30 June was 0.6 for 2020, compared to 0.5 in 2019. The twelve-month average Recordable Injury Frequency (TRIF) for the period ending 30 June was 2.3 for 2020, compared to 2.6 in 2019.

	Quarters		Change			First half	
Q2 2020	**Q1 2020**	**Q2 2019**	**Q2 on Q2**	**(in USD million, unless stated otherwise)**	**2020**	**2019**	**Change**
(472)	58	3,521	N/A	Net operating income/(loss)	**(414)**	8,252	N/A
354	2,047	3,153	(89%)	Adjusted earnings [5]	**2,401**	7,340	(67%)
(251)	(705)	1,476	N/A	Net income/(loss)	**(956)**	3,188	N/A
646	561	1,126	(43%)	Adjusted earnings after tax [5]	**1,207**	2,662	(55%)
2,011	2,233	2,012	(0%)	Total equity liquids and gas production (mboe per day) [4]	**2,122**	2,095	1%
22.9	44.2	59.3	(61%)	Group average liquids price (USD/bbl) [1]	**33.6**	57.4	(41%)

[3] 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.

GROUP REVIEW

Second quarter 2020

Total equity liquids and gas production [4] was 2,011 mboe per day in the second quarter of 2020, on par with the second quarter of 2019 when it was 2,012 mboe per day. Expected natural decline mainly on the NCS and reduced flexible gas production due to lower prices[4] was offset by ramp-up of new fields on the NCS and in the UK.

Total entitlement liquids and gas production [3] was 1,897 mboe per day in the second quarter of 2020, up 3% compared to 1,842 mboe per day in the second quarter of 2019. 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 114 mboe per day in total in the second quarter of 2020 compared to 170 mboe per day in the second quarter of 2019.

	Quarters		Change	Condensed income statement under IFRS		First half	
Q2 2020	Q1 2020	Q2 2019	Q2 on Q2	(unaudited, in USD million)	2020	2019	Change
7,603	15,130	17,096	(56%)	Total revenues and other income	**22,733**	33,578	(32%)
(2,750)	(7,396)	(8,606)	(68%)	Purchases [net of inventory variation]	**(10,146)**	(15,261)	(34%)
(2,411)	(2,603)	(2,502)	(4%)	Operating and administrative expenses	**(5,014)**	(5,141)	(2%)
(2,522)	(4,438)	(2,233)	13%	Depreciation, amortisation and net impairment losses	**(6,959)**	(4,421)	57%
(393)	(635)	(235)	67%	Exploration expenses	**(1,028)**	(503)	>100%
(472)	58	3,521	N/A	Net operating income/(loss)	**(414)**	8,252	N/A
(251)	(705)	1,476	N/A	Net income/(loss)	**(956)**	3,188	N/A

Net operating income was negative USD 472 million in the second quarter of 2020, compared to positive USD 3,521 million in the second quarter of 2019. The decrease was primarily due to lower liquids and gas prices in the E&P reporting segments. The decrease was partially offset by strong results from liquids trading in the MMP reporting segment.

In the second quarter of 2020, net operating income was negatively impacted by impairments of USD 374 million.

In the second quarter of 2019, net operating income was positively impacted by a net gain on sale of assets of USD 139 million.

	Quarters		Change	Adjusted earnings		First half	
Q2 2020	Q1 2020	Q2 2019	Q2 on Q2	(in USD million)	2020	2019	Change
8,044	14,970	16,875	(52%)	Adjusted total revenues and other income	**23,014**	32,647	(30%)
(2,798)	(7,856)	(8,791)	(68%)	Adjusted purchases [6]	**(10,653)**	(15,335)	(31%)
(2,351)	(2,445)	(2,462)	(5%)	Adjusted operating and administrative expenses	**(4,796)**	(4,932)	(3%)
(2,259)	(2,321)	(2,233)	1%	Adjusted depreciation, amortisation and net impairment losses	**(4,580)**	(4,536)	1%
(282)	(302)	(235)	20%	Adjusted exploration expenses	**(584)**	(503)	16%
354	2,047	3,153	(89%)	Adjusted earnings [5]	**2,401**	7,340	(67%)
646	561	1,126	(43%)	Adjusted earnings after tax [5]	**1,207**	2,662	(55%)

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

[4] For more information, see note 8 Impact of the Covid-19 pandemic and oil price decline to the Condensed interim financial statements.

Adjusted total revenues and other income were USD 8,044 million in the second quarter of 2020 compared to USD 16,875 million in the second quarter of 2019. The decrease was mainly due to lower average prices for liquids and gas.

Adjusted purchases [6] were USD 2,798 million in the second quarter of 2020, compared to USD 8,791 million in the second quarter of 2019. The decrease was mainly due to lower average prices for liquids and gas.

Adjusted operating and administrative expenses were USD 2,351 million in the second quarter of 2020, compared to USD 2,462 million in the second quarter of 2019. The decrease was mainly due to the NOK/USD exchange rate development, lower royalties and production fees in addition to lower operation and maintenance costs. Higher transportation costs for liquids especially in MMP partially offset the decrease.

Adjusted depreciation, amortisation and net impairment losses were USD 2,259 million in the second quarter of 2020, compared to USD 2,233 million in the second quarter of 2019. The slight increase was mainly due to ramp-up of new fields, especially on the NCS and in the UK, in addition to increased investments. Higher proved reserves estimates, the NOK/USD exchange rate development and a lower depreciation basis resulting from impairments in previous periods partially offset the increase.

Adjusted exploration expenses were USD 282 million in the second quarter of 2020, compared to USD 235 million in the second quarter of 2019. The increase was mainly due to higher drilling costs and a higher portion of exploration expenditure capitalized in earlier years being expensed this quarter. A higher portion of exploration expenditures being capitalised this quarter partially offset the increase. For more information, see the table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[5] of USD 827 million to net operating income, **Adjusted earnings** [5] were USD 354 million in the second quarter of 2020, a 89% decrease from USD 3,153 million in the second quarter of 2019.

Adjusted earnings after tax [5] were USD 646 million in the second quarter of 2020, which reflects an effective tax rate on adjusted earnings of negative 82.3%, compared to 64.3% in the second quarter of 2019. The change in the effective tax rate was mainly caused by the temporary changes to Norway´s petroleum tax system as described in note 8 Impact of pandemic and oil price decline, and changes in provision for best estimates for uncertain tax positions.

Cash flows provided by operating activities decreased by USD 2,293 million compared to the second quarter of 2019. The decrease was mainly due to lower liquids and gas prices and a change in working capital, partially offset by decreased tax payments.

Cash flows used in investing activities increased by USD 1,150 million compared to the second quarter of 2019. The increase was mainly due to increased financial investments, partially offset by lower capital expenditures.

Cash flows provided by financing activities increased by USD 7,383 million compared to the second quarter of 2019. The increase was mainly due to bond issues in the second quarter of 2020, partially offset by increased payment of short-term debt.

Total cash flows increased by USD 3,941 million compared to the second quarter of 2019.

Free cash flow [5] in the second quarter of 2020 was negative USD 1,853 million including USD 332 million received from the Lundin divestment included in the line item (increase)/decrease in financial investment in the cash flow statement, compared to negative USD 828 million in the second quarter of 2019. The decrease was mainly due to lower liquids and gas prices, partially offset by decreased tax payments and lower capital expenditures.

First half 2020

Net operating income was negative USD 414 million in the first half of 2020 compared to positive USD 8,252 million in the first half of 2019. The decrease was primarily driven by lower liquids and gas prices and net impairments mainly related to decreased short-term oil price assumptions and construction delays mainly caused by the Covid-19 pandemic[6].

In the first half of 2020, net operating income was negatively impacted mainly by net impairments of USD 2,825 million[6].

In the first half of 2019, net operating income was positively impacted by changes in the fair value of derivatives, inventory hedge contracts of USD 711 million, a net gain on sale of assets of USD 150 million, operational storage effects of USD 117 million and an impairment reversal of USD 116 million. Net operating income in the first half of 2019 was negatively impacted by an implementation effect of USD 123 million related to a change in accounting policy for lifting imbalances.

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

[6] For more information, see note 2 Segments and note 8 Impact of the Covid-19 pandemic and oil price decline to the Condensed interim financial statements.

Adjusted total revenues and other income were USD 23,014 million in the first half of 2020 compared to USD 32,647 million in the first half of 2019. 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 4,796 million in the first half of 2020, a decrease of USD 136 million compared to the first half of 2019. The decrease was mainly due to the NOK/USD exchange rate development and lower royalties and production fees driven by lower volumes and prices, partially offset by higher transportation costs for liquids especially in MMP.

Adjusted depreciation, amortisation and net impairment losses were USD 4,580 million in the first half of 2020, an increase of USD 44 million compared to the first half of 2019. The increase was mainly due to ramp up of new fields and more investments mainly in the US, partially offset by the NOK/USD exchange rate development and increased reserve adjustments for several fields.

Adjusted exploration expenses increased by USD 80 million to USD 584 million in the first half of 2020, primarily due to higher drilling 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 and other costs compared to the first half of 2019 partially offset the increase. For more information, see table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[7] of USD 2,816 million to net operating income, **Adjusted earnings** [5] were USD 2,401 million in the first half of 2020, down 67% from USD 7,340 million in the first half of 2019.

Adjusted earnings after tax [5] were USD 1,207 million in first half of 2020, compared to USD 2,662 million in the first half of 2019. The effective tax rate on adjusted earnings was 49.7% in first half of 2020, compared to an effective tax rate of 63.7% in first half of 2019. The decrease in the effective tax rate was mainly caused by the temporary changes to Norway's petroleum tax system as described in note 8 Impact of pandemic and oil price decline, and changes in provision for best estimates for uncertain tax positions.

Cash flows provided by operating activities decreased by USD 2,384 million compared to the first half of 2019. The decrease was mainly due to lower liquids and gas prices, partially offset by decreased tax payments, increased cash flow from derivatives and a change in working capital.

Cash flows used in investing activities decreased by USD 1,957 million compared to the first half of 2019. The decrease was mainly due to decreased financial investments, lower capital expenditures and lower cash flow used for business combinations.

Cash flows provided by financing activities increased by USD 7,286 million compared to the first half of 2019. The increase was mainly due to bond issues in the second quarter of 2020, partially offset by increased payment of short-term debt.

Total cash flows increased by USD 6,859 million compared to the first half of 2019.

Free cash flow [5] for the first half of 2020 was negative USD 1,492 million including USD 332 million received from the Lundin divestment included in the line item (increase)/decrease in financial investment in the cash flow statement, compared to USD 1,010 million in the first half of 2019. The decrease was mainly due to lower liquids and gas prices, partially offset by decreased tax payments, increased cash flow from derivatives, lower capital expenditures and lower cash flow used for business combinations.

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

OUTLOOK

- **Organic capital expenditures** [5] are estimated at around USD 8.5 billion for 2020[8], around USD 10 billion for 2021[8], and around USD 12 billion annual average for 2022-2023
- Equinor intends to continue to mature its attractive portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.1 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) based on current forecast
- **Scheduled maintenance activity** is estimated to reduce equity production by around 30 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. We continue to monitor the impact of Covid-19 on our operations. Deferral of production to create future value, production cuts, gas off-take, timing of new capacity coming on stream, operational regularity, impact of Covid-19 and activity level in the US onshore represent the most significant risks related to the foregoing production guidance. There has been considerable uncertainty created by the Covid-19 pandemic and we are still unable to predict the ultimate impact of this event, including impact on general economic conditions worldwide. Our future financial performance, including cash flow and liquidity, will be impacted by the extent and duration of the current market conditions, the development in realised prices, including price differentials and the effectiveness of actions taken in response to the pandemic. For further information, see section 5.7 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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[8] USD/NOK exchange rate assumption of 9.5.