Press release

24 October, 2019

Equinor third quarter 2019 results

Equinor reports adjusted earnings of USD 2.59 billion and USD 1.08 billion after tax in the third quarter of 2019. IFRS net operating income was negative USD 0.47 billion and the IFRS net income was negative USD 1.11 billion, following net impairments of USD 2.79 billion mainly due to more cautious price assumptions.

- Financial results impacted by lower prices and deferral of gas production to capture higher value
- High activity level with five new projects on stream since second quarter
- Strong progress in building industrial scale within renewable energy
- Clean-up operation at South Riding Point in the Bahamas following Hurricane Dorian
- Introduction of a USD 5 billion share buy-back programme over three years

"We maintain strong cost and capital discipline, but our results are impacted by lower commodity prices in the quarter. In addition, we have decided to use our flexibility to defer gas production to periods with higher expected prices. Based on our strong balance sheet and outlook for profitable growth, we have in the quarter demonstrated our commitment to capital distribution and are executing the first tranche of a 5-billion-dollar share buy-back programme." says Eldar Sætre, President and CEO of Equinor ASA.

"Since the beginning of third quarter, we have started production from Trestakk, Mariner, Snefrid Nord, Utgard, and Johan Sverdrup. At Johan Sverdrup, the field has already achieved a daily production above 200,000 barrels. The five new fields are expected to deliver on average more than 200,000 high value barrels per day net to Equinor in 2020. We are developing a portfolio of profitable projects with low CO2 emissions, and we are on track to deliver strong production growth in 2020 and a 3% average annual production growth from 2019 to 2025" says Sætre.

"The last few months have been a game-changer for our offshore wind business. Together with SSE, we were the winning bidder with three projects at Dogger Bank in the UK, making it the largest offshore wind farm development in the world. In addition, we won the opportunity to develop Empire Wind offshore New York, delivered development plans for Hywind Tampen and realised significant value from the farm-down in the Arkona wind farm offshore Germany" says Sætre.

Adjusted earnings [5] were USD 2.59 billion in the third quarter, down from USD 4.84 billion in the same period in 2018. Adjusted earnings after tax [5] were USD 1.08 billion, down from USD 1.99 billion in the same period last year. Lower prices for both liquids and gas impacted the earnings for the quarter.

Underlying operating costs and administrative expenses are stable from the same period last year. The Marketing, Midstream and Processing segment has delivered strong trading results. Invoiced European gas prices were more than 50% higher than average spot prices, based on realised gains from the longer dated gas sales contracts.

IFRS net operating income was negative USD 0.47 billion in the third quarter, down from USD 4.60 billion in the same period of 2018. IFRS net income was negative USD 1.11 billion in the third quarter, down from positive USD 1.67 billion in the third quarter of 2018. Net operating income was impacted by net impairment charges of USD 2.79 billion, of which USD 2.24 billion relates to unconventional onshore assets in North America, mainly as a result of more cautious price assumptions.

Equinor delivered total equity production of 1,909 mboe per day in the third quarter, down 8% from the same period in 2018. The flexibility in the gas fields is used to delay production to periods with higher expected gas prices. High turnaround activity also impacted the production. Successful start-ups and ramp-up of new fields as well as new well capacity partly offset the reduction in production. The Johan Sverdrup field was put in production 5 October and currently five wells are producing. All eight pre-drilled wells are expected to be put in production by the end of November, giving a production capacity well above 300.000 barrels per day. The field is expected to reach plateau during summer 2020.

As of the end of third quarter 2019, Equinor has completed 32 exploration wells with 14 commercial discoveries. Adjusted exploration expenses [5] in the quarter were USD 0.26 billion, compared to USD 0.24 billion in the same quarter of 2018, with more wells drilled and completed.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 16.60 billion for the first nine months of 2019 compared to USD 20.43 billion in the same period of 2018. Organic capital expenditure [5] was USD 7.38 billion for the first nine months of 2019. At quarter end, net debt to capital employed[1] was 22.5%, also impacted by currency effects and the impairments in the quarter. Following the implementation of IFRS 16, net debt to capital employed[1] was 28.4%.

The board of directors has decided on a dividend of USD 0.26 per share for the third quarter. In the third quarter Equinor launched a share buy-back programme of up to USD 5 billion over a period until the end of 2022. In the first tranche shares will be purchased for up to USD 500 million in the market, and by the end of the third quarter shares for USD 91 million have been settled and paid.

The twelve-month average Serious Incident Frequency (SIF) was 0.6 for the twelve months ended 30 September 2019, compared to 0.5 for the same period a year ago. In the aftermath of Hurricane Dorian, Equinor has mobilised significant resources to safeguard people and the environment, and to clean up the spills at and around the South Riding Point terminal in the Bahamas.

	Quarters		Change		First nine months		
Q3 2019	Q2 2019	Q3 2018	Q3 on Q3	(in USD million, unless stated otherwise)	2019	2018	Change
(469)	3,521	4,597	N/A	Net operating income/(loss)	**7,783**	13,392	(42%)
2,593	3,153	4,843	(46%)	Adjusted earnings [5]	**9,934**	13,571	(27%)
(1,107)	1,476	1,666	N/A	Net income/(loss)	**2,081**	4,171	(50%)
1,077	1,126	1,988	(46%)	Adjusted earnings after tax [5]	**3,739**	5,156	(27%)
1,909	2,012	2,066	(8%)	Total equity liquids and gas production (mboe per day) [4]	**2,032**	2,091	(3%)
52.5	59.3	67.6	(22%)	Group average liquids price (USD/bbl) [1]	**55.8**	64.6	(14%)

GROUP REVIEW

Third quarter 2019

Total equity liquids and gas production [4] was 1,909 mboe per day in the third quarter of 2019, down 8% compared to 2,066 mboe per day in the third quarter of 2018 mainly due to expected natural decline and reduced flexible gas production due to lower prices. The decrease was partially offset by new fields on the NCS and in the E&P International reporting segment including new wells in the US onshore.

Total entitlement liquids and gas production [3] was 1,745 mboe per day in the third quarter of 2019, down 8% compared to 1,895 mboe per day in the third quarter of 2018. In addition to the factors mentioned above, production was negatively affected by higher US royalty volumes due to increased production [4], partially offset by lower effects from production sharing agreements (PSA) [4]. The net effect of PSA and US royalties was 164 mboe per day in total in the third quarter of 2019 compared to 171 mboe per day in the third quarter of 2018.

	Quarters		Change	Condensed income statement under IFRS	First nine months		
Q3 2019	Q2 2019	Q3 2018	Q3 on Q3	(unaudited, in USD million)	2019	2018	Change
15,610	17,096	19,136	(18%)	Total revenues and other income	**49,189**	57,155	(14%)
(7,667)	(8,606)	(9,486)	(19%)	Purchases [net of inventory variation]	**(22,928)**	(28,695)	(20%)
(2,922)	(2,502)	(2,493)	17%	Operating and administrative expenses	**(8,063)**	(7,586)	6%
(4,619)	(2,233)	(2,321)	99%	Depreciation, amortisation and net impairment losses	**(9,039)**	(6,519)	39%
(871)	(235)	(239)	>100%	Exploration expenses	**(1,374)**	(963)	43%
(469)	3,521	4,597	N/A	Net operating income/(loss)	**7,783**	13,392	(42%)
(1,107)	1,476	1,666	N/A	Net income/(loss)	**2,081**	4,171	(50%)

[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.

Net operating income was negative USD 469 million in the third quarter of 2019, compared to positive USD 4,597 million in the third quarter of 2018. The decrease was primarily due to lower average prices and lower volumes for both liquids and gas in addition to higher depreciation, amortisation and net impairment losses and exploration expenses, mainly related to impairments of unconventional onshore assets in North America. Higher provisions in the MMP reporting segment contributed to the decrease, partially offset by gain from sale of assets in the E&P Norway reporting segment.

In the third quarter of 2019, net operating income was negatively impacted mainly by net impairments of USD 2,794 million, provisions of USD 560 million and changes in fair value of derivatives and inventory hedge contracts of USD 444 million and positively affected by gain from sale of assets of USD 849 million.

In the third quarter of 2018, net operating income was negatively impacted mainly by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 450 million and positively affected by net reversal of impairments of USD 89 million.

	Quarters		Change	Adjusted earnings	First nine months		
Q3 2019	Q2 2019	Q3 2018	Q3 on Q3	(in USD million)	2019	2018	Change
15,352	16,875	19,481	(21%)	Adjusted total revenues and other income	**47,999**	57,577	(17%)
(7,642)	(8,791)	(9,516)	(20%)	Adjusted purchases [6]	**(22,977)**	(28,703)	(20%)
(2,421)	(2,462)	(2,471)	(2%)	Adjusted operating and administrative expenses	**(7,354)**	(7,468)	(2%)
(2,432)	(2,233)	(2,410)	1%	Adjusted depreciation, amortisation and net impairment losses	**(6,969)**	(7,124)	(2%)
(263)	(235)	(239)	10%	Adjusted exploration expenses	**(766)**	(712)	8%
2,593	3,153	4,843	(46%)	Adjusted earnings [5]	**9,934**	13,571	(27%)
1,077	1,126	1,988	(46%)	Adjusted earnings after tax [5]	**3,739**	5,156	(27%)

Adjusted total revenues and other income were USD 15,352 million in the third quarter of 2019 compared to USD 19,481 million in the third quarter of 2018. Lower average prices for liquids and gas in addition to liquids and gas volumes negatively affected Adjusted total revenues and other income as well as Adjusted purchases [6].

Adjusted operating and administrative expenses were USD 2,421 million in the third quarter of 2019, compared to USD 2,471 million in the third quarter of 2018. The 2% decrease was mainly related to the implementation of IFRS 16[2], the NOK/USD currency exchange rate development in addition to decreased royalties and production fees due to lower production and prices. The decrease was partially offset by increased transportation costs and operation and maintenance costs.

Adjusted depreciation, amortisation and net impairment losses were USD 2,432 million in the third quarter of 2019, compared to USD 2,410 million in the third quarter of 2018. The minor increase was mainly due to ramp-up of new fields, increased investment mainly related to North America and the implementation of IFRS 16[2] offset by higher proved reserves estimates, net decrease in production and the NOK/USD exchange rate development.

Adjusted exploration expenses were USD 263 million in the third quarter of 2019, an increase of USD 24 million compared to the third quarter of 2018. Higher drilling and field development costs were offset by a higher portion of exploration expenditures being capitalised and lower seismic costs. For more information, see table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[3] of USD 3,062 million to net operating income, **Adjusted earnings** [5] were USD 2,593 million in the third quarter of 2019, a 46% reduction from USD 4,843 million in the third quarter of 2018.

Adjusted earnings after tax [5] were USD 1,077 million in the third quarter of 2019, which reflects an effective tax rate on adjusted earnings of 58.5%, compared to 59.0% in the third quarter of 2018.

Cash flows provided by operating activities decreased by USD 1,237 million compared to the third quarter of 2018. The decrease was mainly due to lower liquids and gas prices, partially offset by a change in working capital and decreased tax payments.

[2] See note 8 Changes in accounting policies 2019 to the Condensed interim financial statements.
[3] For adjustments to net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

Cash flows used in investing activities decreased by USD 5,410 million compared to the third quarter of 2018. The decrease was mainly due to decreased financial investments, increased proceeds from sale of assets and lower capital expenditures, partially offset by increased cash flow used for business combinations.

Cash flows used in financing activities increased by USD 1,248 million compared to the third quarter of 2018. The increase was mainly due to no new finance debt in the quarter and lease payments being reclassified to financing cash flow following the IFRS 16[4] implementation, partially offset by reduced payment of short-term debt.

Total cash flows increased by USD 2,925 million compared to the third quarter of 2018.

Free cash flow [5] in the third quarter of 2019 was negative USD 672 million compared to USD 1,637 million in the third quarter of 2018. The decrease was mainly due to lower liquids and gas prices and increased cash flow used for business combinations, partially offset by increased proceeds from sale of assets and lease payments being reclassified to financing cash flow following the IFRS 16[4] implementation.

First nine months 2019

Net operating income was USD 7,783 million in the first nine months of 2019 compared to USD 13,392 million in the first nine months of 2018. The 42% 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 increased provisions in the MMP reporting segment contributed to the decrease. The decrease was partially offset by net gain of sale of assets mainly related to the E&P Norway reporting segment in the first nine months of 2019.

In the first nine months of 2019, net operating income was negatively affected mainly by net impairments of USD 2,678 million, provisions of USD 557 million and positively impacted by net gain of sale of assets of USD 999 million, changes in the fair value of derivatives and inventory hedge contracts of USD 267 million.

In the first nine months of 2018, net operating income was positively impacted mainly by net impairment reversals of USD 353 million and an implementation effect of USD 287 million related to a change in accounting policy for lifting imbalances. In addition, net operating income was negatively impacted by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 817 million.

Adjusted total revenues and other income were USD 47,999 million in the first nine months of 2019 compared to USD 57,577 million in the first nine months of 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 7,354 million in the first nine months of 2019, a decrease of USD 114 million compared to the first nine months of 2018. The decrease was primarily due to the implementation of IFRS 16[4] and the NOK/USD exchange rate development, partially offset by increased transportation costs mainly related to liquids, portfolio changes in the E&P International reporting segment and higher operation and maintenance costs mainly related to new fields.

Adjusted depreciation, amortisation and net impairment losses were USD 6,969 million in the first nine months of 2019, a decrease of USD 155 million compared to the first nine months of 2018. The decrease was mainly due to higher proved reserves estimates on several fields, no depreciation effect on one of the fields on the NCS and a net decrease in production, partially 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 55 million to USD 767 million in the first nine months of 2019, primarily due to higher drilling and field development costs partially offset by a higher portion of exploration expenses being capitalised and lower seismic costs compared to the first nine months of 2018. For more information, see table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[5] of USD 2,150 million to net operating income, **Adjusted earnings** [5] were USD 9,934 million in the first nine months of 2019, down 27% from USD 13,571 million in the first nine months of 2018.

Adjusted earnings after tax [5] were USD 3,739 million in the first nine months of 2019, compared to USD 5,156 million in the first nine months of 2018. The effective tax rate on adjusted earnings was 62.4% in the first nine months of 2019, the same level as in the first nine months of 2018.

[4] See note 8 Changes in accounting policies 2019 to the Condensed interim financial statements.
[5] For adjustments to net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

Cash flows provided by operating activities decreased by USD 3,519 million compared to the first nine months of 2018. The decrease was mainly due to lower liquids and gas prices and increased tax payments, partially offset by a change in working capital.

Cash flows used in investing activities decreased by USD 1,968 million compared to the first nine months of 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 decreased by USD 216 million compared to the first nine months of 2018. The decrease was mainly due to higher cash inflow from collateral related to derivatives and lower repayment of finance debt, partially offset by no new finance debt, lease payments being reclassified to financing cash flow following the IFRS 16[6] implementation and increased dividend paid.

Total cash flows decreased by USD 1,335 million compared to the first nine months of 2018.

Free cash flow [5] for the first nine months of 2019 was USD 338 million compared to USD 2,487 million in the first nine months of 2018. The decrease was mainly due to lower liquids and gas prices and increased dividend paid, 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[6] implementation and increased proceeds from sale of assets.

OUTLOOK

- **Organic capital expenditures** [5] for 2019 are estimated at USD 10-11 billion
- Equinor intends to continue to mature its large portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.7 billion for 2019, excluding signature bonuses
- Equinor's ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2019 – 2025, **production growth** [7] is expected to come from new projects resulting in around 3% CAGR (Compound Annual Growth Rate)
- **Production** [7] for 2019 is estimated to be around the 2018 level
- **Scheduled maintenance activity** is estimated to reduce the quarterly production by approximately 30 mboe per day in the fourth quarter of 2019. In total, maintenance is estimated to reduce equity production by around 40 mboe per day for the full year of 2019

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