Press release

29 October, 2020

Equinor third quarter 2020 results

Equinor reports adjusted earnings of USD 0.78 billion and USD 0.27 billion after tax in the third quarter of 2020. IFRS net operating income was negative USD 2.02 billion and the IFRS net income was negative USD 2.12 billion, following net impairments of USD 2.93 billion mainly due to reduced future price assumptions.

- Solid results from operations in a low-price environment
- On track to deliver on USD 3 billion action plan to strengthen financial resilience
- Strong value creation from renewables
- Net debt ratio[1] increased to 31.6%, due to net impairments and payment for government share of share buy-back

"Our financial results are impacted by weak prices as regions across the world are still severely affected by the pandemic. We see the results of our forceful response to the market turmoil, with significant cost improvements and strict financial discipline. Net impairments in the quarter are mainly due to reduced price assumptions. Significant uncertainty remains around the future commodity price development underlining the importance of increased competitiveness and financial resilience," says Eldar Sætre, President and CEO of Equinor ASA.

"We deliver solid operational results in the quarter with an underlying production growth of nine percent. We progress our competitive project portfolio, supported by the tax policy measures in Norway, with the delivery of Plan for Development and Operation of the Breidablikk field. Our specialised organisation for late-life production at the Norwegian continental shelf had a successful start-up showing improved production efficiency and reduced cost," says Sætre.

"We continue to capture value from our renewable energy portfolio and position ourselves for profitable growth in value chains for carbon capture and storage. This quarter we announced our partnership with BP, including the divestment of half of our share of offshore wind projects Empire Wind and Beacon Wind in the US. We are progressing H2H Saltend, a project for large-scale production of hydrogen in the UK, and in Norway we are progressing the Northern Lights project as part of creating full value chains for carbon capture, transportation and storage," says Sætre.

Adjusted earnings [5] were USD 0.78 billion in the third quarter, down from USD 2.59 billion in the same period in 2019. Adjusted earnings after tax [5] were USD 0.27 billion, down from USD 1.08 billion in the same period last year. Low prices for liquids and gas impacted the earnings for the quarter.

Equinor is on track to deliver on the action plan launched in March 2020 of USD 3 billion to strengthen financial resilience, including a reduction of operating costs of USD 0.70 billion. Unit production costs are significantly reduced from third quarter last year.

In the E&P Norway segment, Equinor saw weak prices impacting the results but took advantage of the flexibility in gas production as gas prices in Europe recovered through the quarter.

Results in the E&P International segment were impacted by low prices, partially offset by a substantial reduction in costs. The E&P USA segment was also impacted by weak prices, while continuing efforts to reduce activity and costs.

The Marketing, midstream and processing segment captured value from gas sales to Europe, offset by slightly negative refinery margins in the quarter.

[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.

New energy solutions delivered a positive result in the quarter, including costs related to maturation of new projects. A capital gain of around USD 1 billion from the divestment of a 50% non-operated interest of the offshore wind projects Empire Wind and Beacon Wind in the US is expected to be booked in the first quarter of 2021.

IFRS net operating income was negative USD 2.02 billion in the third quarter, down from negative USD 0.47 billion in the same period of 2019. IFRS net income was negative USD 2.12 billion in the third quarter, down from negative USD 1.11 billion in the third quarter of 2019. Net operating income was impacted by net impairments of USD 2.93 billion mainly due to reduced future price assumptions as well as some reductions in reserves estimates. Net impairments include USD 1.38 billion in the E&P USA segment, of which USD 1.21 billion is related to US onshore. Impairments in the E&P International segment were USD 1.18 billion, while impairments within the E&P Norway segment was USD 0.37 billion. In total, USD 0.58 billion of the net impairment was recognised as exploration expenses.

Equinor delivered total equity production of 1,994 mboe per day in the third quarter, up from 1,909 mboe per day in the same period in 2019, with an increased share of gas. Adjusting for portfolio transactions and government-imposed curtailments, this represents an underlying production growth of around 9% compared to the third quarter of 2019.

At the end of the third quarter Equinor has completed 26 exploration wells with 13 commercial discoveries and two wells under evaluation. At the quarter end, 16 wells were ongoing. Adjusted exploration expenses in the quarter were USD 0.30 billion, compared to USD 0.26 billion in the same quarter of 2019.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 10.2 billion in the first nine months of 2020, compared to USD 16.6 billion in the first nine months of 2019. Organic capital expenditure [5] was USD 5.99 billion for the first nine months of 2020. At the closing of the quarter net debt to capital employed(2) was 31.6%, up from 29.3% at the end of the second quarter of 2020, mainly impacted by the net impairment in the quarter, as well as share buy-back from the Norwegian state. Following the implementation of IFRS 16, net debt to capital employed(2) was 37.0%.

The board of directors has decided a cash dividend of USD 0.11 per share for the third quarter 2020.

The twelve-month average Serious Incident Frequency (SIF) for the period ending 30 September was 0.6 for 2020, similar to the same period for 2019. The twelve-month average Recordable Injury Frequency (TRIF) for the period ending 30 September was 2.3 for 2020, compared to 2.5 in 2019.

	Quarters		Change		First nine months		
Q3 2020	Q2 2020	Q3 2019	Q3 on Q3	(in USD million, unless stated otherwise)	2020	2019	Change
(2,019)	(472)	(469)	>(100%)	Net operating income/(loss)	**(2,434)**	7,783	N/A
780	354	2,593	(70%)	Adjusted earnings [5]	**3,181**	9,934	(68%)
(2,124)	(251)	(1,107)	(92%)	Net income/(loss)	**(3,080)**	2,081	N/A
271	646	1,077	(75%)	Adjusted earnings after tax [5]	**1,478**	3,739	(60%)
1,994	2,011	1,909	4%	Total equity liquids and gas production (mboe per day) [4]	**2,079**	2,032	2%
38.3	22.9	52.5	(27%)	Group average liquids price (USD/bbl) [1]	**35.2**	55.8	(37%)

[2] 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

Third quarter 2020

Total equity liquids and gas production [4] was 1,994 mboe per day in the third quarter of 2020, up 4% compared to 1,909 mboe per day in the third quarter of 2019 mainly due to new fields on the NCS and UKCS. Increased flexible gas production added to the increase, partially offset by expected natural decline mainly on the NCS, production halt in Brazil and divestment of the Eagle Ford asset in the E&P USA segment in the fourth quarter of 2019.

Total entitlement liquids and gas production [3] was 1,865 mboe per day in the third quarter of 2020, up 7% compared to 1,745 mboe per day in the third 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 129 mboe per day in total in the third quarter of 2020 compared to 164 mboe per day in the third quarter of 2019.

	Quarters		Change	Condensed income statement under IFRS	First nine months		
Q3 2020	Q2 2020	Q3 2019	Q3 on Q3	(unaudited, in USD million)	2020	2019	Change
11,339	7,603	15,610	(27%)	Total revenues and other income	**34,073**	49,189	(31%)
(5,307)	(2,750)	(7,667)	(31%)	Purchases [net of inventory variation]	**(15,453)**	(22,928)	(33%)
(2,368)	(2,411)	(2,922)	(19%)	Operating and administrative expenses	**(7,382)**	(8,063)	(8%)
(4,798)	(2,522)	(4,619)	4%	Depreciation, amortisation and net impairment losses	**(11,757)**	(9,039)	30%
(886)	(393)	(871)	2%	Exploration expenses	**(1,914)**	(1,374)	39%
(2,019)	(472)	(469)	>(100%)	Net operating income/(loss)	**(2,434)**	7,783	N/A
(2,124)	(251)	(1,107)	(92%)	Net income/(loss)	**(3,080)**	2,081	N/A

Net operating income was negative USD 2,019 million in the third quarter of 2020, compared to negative USD 469 million in the third quarter of 2019. The decrease was mainly due to lower liquids and gas prices in addition to net impairments[3] primarily related to reduced price assumptions[4] and negative reserve updates. Strong results from liquids trading in the MMP segment in addition to lower operational and administrative expenses, especially in the MMP segment, partially offset the decrease.

In the third quarter of 2020, net operating income was negatively impacted by net impairments[3] of USD 2,928 million and provisions of USD 108 million. Changes in fair value of derivatives and inventory hedge contracts of USD 352 million partially offset the decrease.

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.

[3] For more information, see note 2 Segments to the Condensed interim financial statements.
[4] For more information, see note 6 Property, plant and equiptment and intangible assets to the Condensed interim financial statements.

Q3 2020	Quarters Q2 2020	Q3 2019	Change Q3 on Q3	Adjusted earnings (in USD million)	First nine months 2020	2019	Change
10,909	8,044	15,352	(29%)	Adjusted total revenues and other income	**33,923**	47,999	(29%)
(5,203)	(2,798)	(7,642)	(32%)	Adjusted purchases [6]	**(15,856)**	(22,977)	(31%)
(2,179)	(2,351)	(2,421)	(10%)	Adjusted operating and administrative expenses	**(6,975)**	(7,354)	(5%)
(2,445)	(2,259)	(2,432)	1%	Adjusted depreciation, amortisation and net impairment losses	**(7,025)**	(6,969)	1%
(302)	(282)	(263)	15%	Adjusted exploration expenses	**(886)**	(766)	16%
780	354	2,593	(70%)	Adjusted earnings [5]	**3,181**	9,934	(68%)
271	646	1,077	(75%)	Adjusted earnings after tax [5]	**1,478**	3,739	(60%)

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

Adjusted total revenues and other income were USD 10,909 million in the third quarter of 2020 compared to USD 15,352 million in the third quarter of 2019. The decrease was mainly due to lower average prices for liquids and gas.

Adjusted purchases [6] were USD 5,203 million in the third quarter of 2020, compared to USD 7,642 million in the third quarter of 2019. The decrease was mainly due to lower average prices for liquids and gas.

Adjusted operating and administrative expenses were USD 2,179 million in the third quarter of 2020, compared to USD 2,421 million in the third quarter of 2019. The decrease was mainly due to lower activity level as a result of the Covid-19 pandemic and the divestment of the Eagle Ford asset in the fourth quarter of 2019. Lower royalties and production fees added to the decrease. Higher transportation costs for liquids, especially in the MMP segment, partially offset the decrease.

Adjusted depreciation, amortisation and net impairment losses were USD 2,445 million in the third quarter of 2020, compared to USD 2,432 million in the third quarter of 2019. The slight increase was mainly due to ramp-up of new fields on the NCS and higher investments especially in the E&P segments. Higher proved reserves estimates especially in the E&P International and E&P USA segments in addition to lower depreciation basis resulting from net impairments in previous periods mostly offset the increase.

Adjusted exploration expenses were USD 302 million in the third quarter of 2020, compared to USD 263 million in the third quarter of 2019. The increase was mainly due to a lower portion of exploration expenditures being capitalised and a higher portion of exploration expenditure capitalised in earlier years being expensed this quarter, partially offset by lower drilling costs. For more information, see the table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[5] of USD 2,704 million to net operating income, **Adjusted earnings** [5] were USD 780 million in the third quarter of 2020, a 70% decrease from USD 2,593 million in the third quarter of 2019.

Adjusted earnings after tax [5] were USD 271 million in the third quarter of 2020, which reflects an effective tax rate on adjusted earnings of 65.3%, compared to 58.5% in the third quarter of 2019. The increase in the effective tax rate was mainly due to decreased adjusted earnings in the third quarter of 2020 in entities with lower than average tax rates, and in entities without recognised taxes, partially offset by the temporary changes to Norway's petroleum tax system as described in note 8 Impact of pandemic and oil price decline to the Condensed interim financial statements.

Cash flows provided by operating activities decreased by USD 1,549 million compared to the third 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 2,877 million compared to the third quarter of 2019. The increase was mainly due to increased financial investments and reduced proceeds from sale of assets, partially offset by lower cash flow used for business combinations and capital expenditures.

Cash flows provided by financing activities increased by USD 820 million compared to the third quarter of 2019. The increase was mainly due to increased short-term debt, increased collateral received and decreased dividend paid, partially offset by increased payments related to the share buy-back programme and repayment of finance debt.

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

Total cash flows decreased by USD 3,606 million compared to the third quarter of 2019.

Free cash flow [5] in the third quarter of 2020 was USD 216 million compared to negative USD 672 million in the third quarter of 2019. The increase was mainly due to lower cash flow used for business combinations, decreased tax payments and lower capital expenditures, partially offset by reduced proceeds from sale of assets, lower liquids and gas prices and increased payments related to the share buy-back programme.

First nine months 2020

Net operating income was negative USD 2,434 million in the first nine months of 2020 compared to positive USD 7,783 million in the first nine months of 2019. The decrease was mainly due to lower liquids and gas prices in addition to net impairments[6] primarily related to reduced price assumptions[7] and negative reserve updates.

In the first nine months of 2020, net operating income was negatively impacted mainly by net impairments[6] of USD 5,752 million and provisions of USD 290 million.

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 and changes in the fair value of derivatives and inventory hedge contracts of USD 267 million.

Adjusted total revenues and other income were USD 33,923 million in the first nine months of 2020 compared to USD 47,999 million in the first nine months of 2019. The decrease was mainly due to lower average prices for liquids and gas.

Adjusted purchases [6] were USD 15,856 million in the first nine months of 2020 compared to USD 22,977 million in the first nine months of 2019. The decrease was mainly due to lower average prices for liquids and gas.

Adjusted operating and administrative expenses were USD 6,975 million in the first nine months of 2020, a decrease of USD 379 million compared to the first nine months of 2019. The decrease was mainly due to the NOK/USD exchange rate development in addition to lower royalties and production fees driven by lower volumes and prices. The divestment of the Eagle Ford asset in the E&P USA segment in the fourth quarter of 2019 and reduced Gassled removal costs added to the decrease. Higher transportation costs for liquids in the MMP segment partially offset the decrease.

Adjusted depreciation, amortisation and net impairment losses were USD 7,025 million in the first nine months of 2020, up USD 56 million compared to the first nine months of 2019. The slight increase was mainly due to ramp-up of new fields especially on the NCS and UKCS and higher investments mainly in the US. Higher proved reserves estimates for several fields, lower depreciation basis resulting from net impairments in previous periods and the NOK/USD exchange rate development mostly offset the increase.

Adjusted exploration expenses increased by USD 120 million to USD 886 million in the first nine months of 2020, primarily due to a higher portion of exploration expenditure capitalised in earlier years being expensed this period and higher drilling costs. The increase was partially offset by a higher portion of exploration expenses being capitalised, lower seismic costs and other costs. For more information, see table titled Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[8] of USD 5,520 million to net operating income, **Adjusted earnings** [5] were USD 3,181 million in the first nine months of 2020, down 68% from USD 9,934 million in the first nine months of 2019.

Adjusted earnings after tax [5] were USD 1,478 million in first nine months of 2020, compared to USD 3,739 million in the first nine months of 2019. The effective tax rate on adjusted earnings was 53.6% in first nine months of 2020, compared to an effective tax rate of 62.4% in first nine months 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 to the Condensed interim financial statements, in addition to changes in provision for best estimates for uncertain tax positions.

Cash flows provided by operating activities decreased by USD 3,932 million compared to the first nine months 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 and increased cash flow from derivatives.

[6] For more information, see note 2 Segments to the Condensed interim financial statements.
[7] For more information, see note 6 Property, plant and equiptment and intangible assets to the Condensed interim financial statements.
[8] For items impacting net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures

Cash flows used in investing activities increased by USD 920 million compared to the first nine months of 2019. The increase was mainly due to increased financial investments and reduced proceeds from sale of assets, partially offset by lower cash flow used for business combinations and capital expenditures.

Cash flows provided by financing activities increased by USD 8,107 million compared to the first nine months of 2019. The increase was mainly due to bond issues in the second quarter of 2020, increased short-term debt and decreased dividend paid, partially offset by increased payments related to the share buy-back program and increased repayment of finance debt.

Total cash flows increased by USD 3,255 million compared to the first nine months of 2019.

Free cash flow [5] for the first nine months of 2020 was negative USD 1,277 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 338 million in the first nine months of 2019. The decrease was mainly due to lower liquids and gas prices, reduced proceeds from sale of assets and increased payments related to the share buy-back program, partially offset by decreased tax payments, lower cash flow used for business combinations, lower capital expenditures and increased cash flow from derivatives.

OUTLOOK

- **Organic capital expenditures** [5] are estimated at around USD 8.5 billion for 2020[9], around USD 10 billion for 2021[9], 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, accruals 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 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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[9] USD/NOK exchange rate assumption of 9.5.