



2020

Equinor Energy AS

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Board of directors' report

2020 was an extraordinary year for the oil and gas industry which has seen higher volatility in markets impacting results compared to 2019. The financial results of Equinor Energy AS in 2020 were influenced by lower liquids and gas prices and net impairments related to reduced price assumptions. The oil and gas market is still subject to volatility, however the company has flexibility to handle different future market scenarios based on its strong financial position and a strong portfolio.

Net operating loss was USD 1,261 million in 2020 compared to a Net operating income of USD 6,973 million in 2019. The decrease was related to lower revenues due to lower liquids and gas prices and increased impairment losses in 2020 compared to 2019.

Net loss was USD 3,205 million in 2020 compared to a Net loss of USD 168 million in 2019. The increased loss was related to lower revenues due to lower liquids and gas prices and increased impairment losses, partially offset by lower income tax in 2020 compared to 2019.

Equinor Energy AS was founded in 2007 and is domiciled in Norway. Equinor Energy's business consists principally of the exploration, production and transportation of petroleum and petroleum-derived products. In accordance with the Norwegian Accounting Act §3-7, Equinor Energy AS does not prepare consolidated financial statements. For further information, see the notes to the financial statements and Equinor ASA's annual report 2020.

The financial statements of Equinor Energy AS are prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014.

Our business

Equinor Energy AS is a wholly owned subsidiary of Equinor ASA, and operates about 70% of all oil and gas production on the Norwegian continental shelf.

Effective 1 January 2009, Equinor Energy AS received certain assets and assumed certain liabilities from its parent company. The transfer included all of the parent company's exploration and production assets and liabilities on the Norwegian continental shelf (NCS) and related transportation systems, processing plants and terminals. Following the restructuring of assets and liabilities within the Equinor group, Equinor Energy AS has become the co-obligor or guarantor of certain parent company liabilities.

Through its subsidiaries and other equity accounted companies, Equinor Energy AS owns additional licences in oil and gas fields internationally. The company also owns oil and gas processing and transportation facilities in Norway.

Equinor Energy AS has no employees, but purchases services from the parent company and other companies in the Equinor group.

Profit and loss analysis

Net operating income was negative USD 1,261 million in 2020 compared to positive USD 6,973 million in 2019. The decrease was attributable to lower revenues due to lower liquids and gas prices, and increased impairment losses related to reduced price assumptions, negative reserve revisions and increased cost estimates.

Condensed financial statements (in USD million)	Full year		
	2020	2019	Change
Revenues	14,444	20,500	-30%
Net income/(loss) from subsidiaries and other equity accounted investments	(5,267)	(2,941)	-79%
Other income	33	194	-83%
Total revenues and other income	9,210	17,753	-48%
Purchases [net of inventory variation]	(263)	(466)	-44%
Operating, selling, general and administrative expenses	(3,611)	(4,016)	-10%
Depreciation, amortisation and net impairment losses	(6,174)	(5,821)	6%
Exploration expenses	(423)	(478)	-11%
Total operating expenses	(10,471)	(10,780)	-3%
Net operating income/(loss)	(1,261)	6,973	N/A
Net financial items	(205)	(318)	-35%
Income/(loss) before tax	(1,467)	6,654	N/A
Income tax	(1,739)	(6,822)	-75%
Net income/(loss)	(3,205)	(168)	>(100%)

Revenues amounted to USD 14,444 million in 2020, compared to USD 20,500 million in 2019. The 30% decrease was mainly due to lower liquids and gas prices, offset by a slight increase in volumes.

Net loss from subsidiaries and other equity accounted investments amounted to USD 5,267 million in 2020, compared to a loss of USD 2,941 million in 2019.

Other income was USD 33 million in 2020, mainly related to proceeds from insurance claims related to Skarv. In 2019, Other income was USD 194 million, mainly related to gains from sales of ownership interests in Alve, Ringhorn and Vilje fields discovery on the Norwegian continental shelf (NCS).

Equinor Energy AS purchases natural gas and pipeline transport on a back-to-back basis from Equinor ASA. Equinor Energy AS carries all the risks related to these purchases and they are therefore presented as purchase. Purchases amounted to USD 263 million in 2020 compared to USD 466 million in 2019. The decrease was mainly due to a lower gas price on third party gas.

Operating expenses include field production and transport systems costs related to the company's share of oil and natural gas production while selling, general and administrative expenses include expenses related to the sale and marketing of our products. Operating expenses and selling, general and administrative expenses in 2020 was USD 3,611 million compared to USD 4,016 million in 2019. The decrease was mainly due lower transportation and operation costs.

Depreciation, amortisation and net impairment losses include depreciation of production installations and transport systems, depletion of fields in production and amortisation of intangible assets. The 6% increase from 2019 was mainly due to increased impairments in 2020 compared to 2019 and higher depreciation in 2020 as a result of higher production volumes from Johan Sverdrup compared to 2019.

Exploration expenditures are capitalised to the extent that exploration efforts are considered successful, or pending such assessment. Otherwise, such expenditures are expensed. The exploration expenses consist of the expensed portion of our exploration expenditures in 2020 and exploration expenditures capitalised in previous years. Exploration expenses decreased by 11% compared to 2019, mainly due to lower drilling activity and a lower average well cost.

Net operating income was negative USD 1,261 million in 2020 compared to positive USD 6,973 million in 2019, mainly due to lower liquids and gas prices, and increased impairments in 2020 compared to 2019.

Net financial items amounted to a loss of USD 205 million in 2020, compared to a loss of USD 318 million in 2019. The decreased loss in 2020 compared to 2019 is mainly due to net foreign exchange gains in 2020 compared to net foreign exchange losses in 2019, partially offset by lower interest income.

Income taxes were USD 1,739 million in 2020 compared to USD 6,822 million in 2019, equivalent to an effective tax rate of negative >100% in 2020 and positive >100% in 2019. The change in tax rate is mainly explained by negative income before tax in 2020, which includes a higher loss in subsidiaries and other equity accounted investments which is not tax deductible and a higher uplift in 2020 compared to 2019 due to temporary changes in tax legislation.

The net loss of USD 3,205 million in 2020 is covered by prior years retained earnings.

In accordance with §3-3 of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the basis of the going concern assumption.

Cash flows

Cash flows provided by operating activities contributed with USD 8,102 million, cash flows used in investing activities amounted to USD 5,868 million and cash flows used in financing activities amounted to USD 2,213 million in 2020.

Cash flows provided by operating activities decreased by USD 331 million in 2020 compared to the full year 2019. The decrease was mainly due to lower liquids and gas prices, partially offset by decreased tax payments.

Cash flows used in investing activities decreased by USD 2,390 million in 2020 compared to the full year 2019. The decrease was mainly due to lower capital expenditures and no cashflow used in business combinations in 2020.

Cash flows used in financing activities increased by USD 2,027 million in 2020, compared to the full year 2019. The increase was mainly due to repayment of loan to Equinor ASA.

Liquidity and capital resources

Equinor Energy AS has maintained a solid financial position through 2020.

Our annual cash flow from operations is highly dependent on oil and gas prices and our levels of production. It is only influenced to a small degree by seasonality and maintenance turnarounds. The financial results of operations largely depend on a number of factors, most significantly those affecting prices received in NOK for sold products.

Equinor Energy AS' liquidity and debt position are managed at Equinor group level.

Risk review

Equinor Energy AS is exposed to risks that separately, or in combination, could affect its operational and financial performance. In this section, some of the key risks are addressed.

Equinor below means Equinor Group, Equinor Energy AS and its subsidiaries.

Risks related to our business, strategy and operations

This section describes the most significant potential risks relating to Equinor's business, strategy and operations.

Oil and natural gas price

Fluctuating prices of oil and/or natural gas impact our financial performance.

Generally, Equinor will not have control over the factors that affect the prices of oil and natural gas.

The prices of oil and natural gas have fluctuated significantly over the last few years. There are several reasons for these fluctuations, but fundamental market forces beyond the control of Equinor or other similar market participants have impacted and will continue to impact oil and natural gas prices in the future.

Factors that affect the prices of oil and natural gas include:

- economic and political developments in resource-producing regions and key demand regions
- regulations and actions of governments and international organizations, including changes in energy and climate policies
- global economic conditions
- global and regional supply and demand
- the ability of the Organization of the Petroleum Exporting Countries (OPEC) and/or other producing nations to influence global production levels and prices
- adverse social and health situations in any country, including an epidemic or pandemic, measures taken by governments and non-governmental organisations in response to such situations, and the effects of such situations on demand
- prices of alternative fuels that affect the prices realised under Equinor's long-term gas sales contracts
- war or other international conflicts
- changes in population growth and consumer preferences
- the price and availability of new technology
- increased supply from new oil and gas sources
- weather conditions and climate change

In 2020, there has been significant price volatility, triggered, among other things by the changing dynamic among Opec+ members and the impact on demand created by the Covid-19 pandemic and the measures to contain it. See also Covid-19 pandemic below.

Climate change in general, the energy transition, governmental regulations and policies, and the world's reach towards the climate targets set out in the Paris Agreement, could either together or independently influence the oil and natural gas prices. Estimating global energy demand towards 2050 is an extremely difficult task, assessing the future development in supply and demand, technology change, taxation, tax on emissions, production limits and other important factors, and Equinor's long-term perspectives must be based on scenarios that span these outcomes, building on different plausible combinations of assumptions for where global energy markets may develop.

Decreases in oil and/or natural gas prices could have an adverse effect on Equinor's business, the results of operations, financial condition and liquidity and Equinor's ability to finance planned capital expenditure, including possible reductions in capital expenditures which in turn could lead to reduced reserve replacement.

A significant or prolonged period of low oil and natural gas prices or other indicators could, if deemed to have longer term impact, lead to reviews for impairment of the group's oil and natural gas assets. Such reviews would reflect management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the results of Equinor's operations in the period in which it occurs. Changes in management's view on long-term oil and/or natural gas prices or further material reductions in oil, gas and/or product prices could have an adverse impact on the economic viability of projects that are planned or in development. See also note 2 Significant accounting policies in the Financial statements for a discussion of key sources of uncertainty with respect to management's estimates and assumptions that affect Equinor's reported amounts of assets, liabilities, income and expenses and note 11 Property, plant and equipment in the Financial statements for a discussion of price assumptions and sensitivities affecting the impairment analysis.

Proved reserves and expected reserves estimates

Equinor's crude oil and natural gas reserves are based on estimates and Equinor's future production, revenues and expenditures with respect to its reserves may differ from these estimates.

The reliability of the reserve estimates is dependent on:

- the quality and quantity of Equinor's geological, technical and economic data
- the production performance of Equinor's reservoirs
- extensive engineering judgments
- whether the prevailing tax rules and other government regulations, contracts and oil, gas and other prices will remain the same as on the date the estimates are made

Many of the factors, assumptions and variables involved in estimating reserves are beyond Equinor's control and may prove to be incorrect over time. The results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in Equinor's reserve data.

In addition, proved reserves are estimated based on the US Securities and Exchange Commission (SEC) requirements and may therefore differ substantially from Equinor's view on expected reserves. The prices used for proved reserves are defined by the SEC and are calculated based on a 12 month un-weighted arithmetic average of the first day of the month price for each month during the reporting year, leading to a forward price strongly linked to last year's price environment.

Fluctuations in oil and gas prices will have a direct impact on Equinor's proved reserves. For fields governed by production sharing agreements (PSAs), a lower price may lead to higher entitlement to the production and increased reserves for those fields. Conversely, a lower price environment may also lead to lower activity resulting in reduced reserves. For PSAs, these two effects may to some degree offset each other. In addition, a low-price environment may result in earlier shutdown due to uneconomic production. This will affect both PSAs and fields with concession types of agreement.

Climate change and transition to a lower carbon economy

A transition to a lower carbon economy will impact Equinor's business and entails risks related to policy, legal, regulatory, market, technology and reputation.

Risks related to changes in policies, laws and regulations

Equinor expects and is preparing for regulatory changes and policy measures targeted at reducing greenhouse gas emissions. Stricter climate regulations and policies could impact Equinor's financial outlook, including the carrying value of its assets, whether directly through changes in taxation or other costs to operations and projects, or indirectly through changes in consumer behaviour or technology developments. Equinor expects greenhouse gas emission costs to increase from current levels and to have a wider geographical range than today. We apply an internal carbon price of at least USD 56 per tonne of CO₂ in investment analysis. In countries where the actual or predicted carbon price is higher than USD 56, we apply the actual or expected cost, such as in Norway where both a CO₂ tax and the EU Emission Trading System (EU ETS) apply. The new EU Green Deal, EU Taxonomy and carbon pricing in specific countries imply more future uncertainty.

Climate-related policy changes may also reduce access to prospective geographical areas for future exploration and production. Disruptive developments may not be ruled out, possibly triggered by severe weather events affecting public perception and policy making.

Market and technology risks

A transition to a low carbon economy contributes to uncertainty over future demand and prices for oil and gas as described in the section Oil and natural gas price. Increased demand for and improved cost competitiveness of renewable energy, and innovation and technology changes supporting the further development and use of renewable energy and low-carbon technologies, represent both threats and opportunities for Equinor.

Reputational and financial impact

Increased concern over climate change could lead to increased expectations on fossil fuel producers, as well as a more negative perception of the oil and gas industry. This could lead to litigation and divestment risk and could also have an impact on talent attraction and retention and on our licences to operate in certain jurisdictions.

All of these risks could lead to an increased cost of capital. For example, certain lenders have recently indicated that they will direct or restrict their lending activities based on environmental parameters.

Equinor's climate roadmap, including climate ambitions, is a response to challenges related to climate change. There is no assurance that Equinor's climate ambitions will be achieved. The achievement of any net zero ambition and net carbon intensity ambition depends, in part, on broader societal shifts in consumer demands and technological advancements, each of which are beyond Equinor's control. Should society's demands and technological innovation not shift in parallel with Equinor's pursuit of significant greenhouse gas emission reductions, Equinor's ability to meet its climate ambitions will be impaired.

Global operations

Equinor is engaged in global activities that involve several technical, commercial and country-specific risks.

Technical risks of Equinor's exploration activities relate to Equinor's ability to conduct its seismic and drilling operations in a safe and efficient manner and to encounter commercially productive oil and gas reservoirs. Technical risks of Equinor's renewable energy activities relate to Equinor's ability to design and perform renewable projects, including assembly and installation of wind turbines and solar panels for our wind and solar farms, respectively, as well as the operation and maintenance.

Commercial risks relate to Equinor's ability to secure access to new business opportunities in an uncertain global, competitive environment and to recruit and maintain competent personnel and continue to ensure commercial viability of such business opportunities in this context.

Country-specific risks relate, among other things, to health, safety and security, the political environment, compliance with and understanding of local laws, regulatory requirements and/or license agreements, and impact on the environment and the communities in which Equinor operates.

These risks may adversely affect Equinor's current operations and financial results, and, for its oil- and gas activities, its long-term replacement of reserves.

In addition, Equinor's operations and workforce are being impacted by the global Covid-19 pandemic, causing certain operations to be curtailed to various degrees, which may become suspended completely if adverse conditions deteriorate further. Quarantine rules, occasionally limited mobility for personnel, reduced manpower and social distancing requirements have resulted in lower activity on certain sites, causing delays, cost increases and consequences for further work. The start-up of some projects has been postponed, including the Norwegian projects Johan Castberg, Martin Linge and Njord future and the Brazilian project Peregrino 2. In March, Martin Linge had to demobilize all personnel due to the Covid-19 pandemic, and later remobilized with a limited workforce in accordance with new infection control measures. The production vessel on Johan Castberg, which is under construction at the Singapore yard, was also delayed due to reduced manning and shut-down of the yard in 2020. Reduced manning has also impacted progress on Njord. On the Peregrino 2 project, reduced manning has led to lower progress in offshore construction and commissioning work. We have implemented business continuity and emergency response plans to continue operations, and are taking health and safety measures such as implementing worker distancing measures, increased sanitation requirements and using a remote workforce where possible. In addition, certain of our suppliers and customers have indicated that contractual clauses such as those involving force majeure are being explored. The potential financial impact of such actions for Equinor is currently uncertain. There can be no assurance that the continued spread of Covid-19 and efforts to contain the virus will not materially impact our operations or financial condition.

Decline of reserves

Failure to acquire, discover and develop additional reserves, will result in material decline of reserves and production from current levels.

Equinor's future production is dependent on its success in acquiring or finding and developing additional reserves adding value. If unsuccessful, future total proved reserves and production will decline.

Successful implementation of Equinor's group strategy for value growth is dependent on sustaining its long-term reserve replacement. If upstream resources are not progressed to proved reserves in a timely manner, Equinor's reserve base, and thereby future production, will gradually decline and future revenue will be reduced.

In particular, in a number of resource-rich countries, national oil companies control a significant proportion of oil and gas reserves that remain to be developed. To the extent that national oil companies choose to develop their oil and gas resources without the participation of international oil companies, or if Equinor is unable to develop partnerships with national oil companies, its ability to find and acquire or develop additional reserves will be limited.

In addition, Equinor's US onshore portfolio contains significant amounts of undeveloped resources that depend on Equinor's ability to develop these successfully. Low oil and/or gas prices over a sustained period of time may result in Equinor deciding not to develop these resources or at least deferring development awaiting improved prices.

Health, safety and environmental

Equinor is exposed to a wide range of health, safety and environmental risks that could result in significant losses.

Exploration, project development, operation and transportation related to oil and natural gas, as well as development and operation of renewable energy production, can be hazardous. In addition, Equinor's activities and operations are affected by external factors like difficult geographies, climate zones and environmentally sensitive regions.

Risks factors that could affect health, safety and the environment include human performance, operational failures, detrimental substances, subsurface behavior, technical integrity failures, vessel collisions, natural disasters, adverse weather conditions and other occurrences. Furthermore, non-compliance with our management system could influence the potential for negative effects. These risk factors could, among other things, lead to blowouts, structural collapses, loss of containment of hydrocarbons or other hazardous materials, fires, explosions and water contamination that cause harm to people, loss of life or environmental damage.

In particular, all modes of transportation of hydrocarbons – including road, rail, sea or pipeline – are particularly susceptible to a loss of containment of hydrocarbons and other hazardous materials and represent a significant risk to people and the environment.

As operations are subject to inherent uncertainty, it is not possible to guarantee that the management system or other policies and procedures will be able to identify all aspects of health, safety and environmental risks. It is also not possible to say with certainty that all activities will be carried out in accordance with these systems.

Covid-19 pandemic

Impacts of the Covid-19 pandemic, geopolitical factors and other factors have resulted in a significant decrease in demand for oil and gas and caused a precipitous drop in commodity prices in parts of 2020, which has had and can continue to have an adverse, and potentially material adverse, effect on Equinor's financial and operating results.

The Covid-19 pandemic has slowed, and in many countries, contracted economic growth and has had dramatic consequences for energy demand. The mitigation effects from the Covid-19 pandemic have had a massive impact on oil demand, particularly mobility fuels. In the first half of 2020, commodity prices fell dramatically to historic lows, even briefly going negative, largely due to a combination of a severely reduced demand for oil and gas resulting from government-mandated travel restrictions and the curtailment of economic activity resulting from the Covid-19 pandemic. Extended periods of low commodity prices are expected to have a material adverse impact on the company's results of operations, financial condition and liquidity. See "oil and natural gas price" above for further details on how lower commodity prices impact Equinor.

There continues to be significant uncertainty around the duration and extent of the impact of the Covid-19 pandemic. Global roll-out of vaccines during 2021 may allow an accelerated re-opening of the economy through the year, but outlooks on speed and extent of vaccine implementation and vaccination effects are uncertain. In addition, the scope of monetary and fiscal governmental stimuli construed to mitigate the effects of the pandemic will affect the economy. However, downside risks are inter alia virus infection flare-ups (including regional or national lockdowns), high unemployment suppressing consumption and increasing public and private debt levels. See also note 2 Significant accounting policies in the Financial statements.

The resulting changes in market risk and economic circumstances will continue to impact Equinor's assumptions about the future and related sources of estimation uncertainty. The unprecedented nature of such market conditions could cause current management estimates and assumptions to be challenged in hindsight.

The impact of the Covid-19 pandemic continues to evolve, and the continuation or a resurgence of the pandemic could precipitate or aggravate the other risk factors identified in this report, which in turn could further adversely affect Equinor's business, financial condition (change to balance sheet "robustness"), liquidity, results of operations and profitability, including in ways not currently known or considered by us to present significant risks.

Physical effects of climate change

Changes in physical climate parameters could impact Equinor's operations.

Examples of parameters that could impact Equinor's operations include increasing frequency and severity of extreme weather events, rising sea level, changes in sea currents and restrained water availability. There is also uncertainty regarding the magnitude and time horizon for the occurrence of physical impacts of climate change, which increases uncertainty regarding their potential impact on Equinor.

Security and cybersecurity threats

Equinor is exposed to security threats that could have a materially adverse effect on Equinor's results of operations and financial condition.

Security threats such as acts of terrorism, cyber-attacks and insider threats against Equinor's assets could result in loss of life and other losses. In particular, the scale, sophistication and severity of cyber-attacks continue to evolve. Increasing digitization and reliance on information technology systems make managing cyber-risk a priority for many industries, including the energy industry. Failure to manage these threats could result in an HSE incident or disruption of Equinor's operations. The company could face regulatory actions, legal liability, reputational damage and loss of revenue.

In particular, failure to maintain and develop cybersecurity barriers, which are intended to protect Equinor's IT infrastructure from being compromised by unauthorized parties, may affect the confidentiality, integrity and availability of Equinor's information systems and digital solutions, including those critical to its operations. Attacks on Equinor's information systems could result in significant financial damage to Equinor, including as a result of material losses or loss of life due to such attacks.

Crisis management systems

Equinor's crisis management systems may prove inadequate.

If Equinor does not respond or is perceived not to have prepared, prevented, responded or recovered in an effective and appropriate manner to a crisis, people, environment, assets and reputation could be severely affected. A crisis or disruption might occur as a result of a security or cybersecurity incident or if a risk described under "Health, safety and environmental" materializes.

Competition; innovation

Equinor encounters competition from other companies in all areas of its operations. Equinor could be adversely affected if competitors move faster than it in the development and deployment of new technologies and products.

Equinor may experience increased competition from larger players with stronger financial resources, from smaller ones with increased agility and flexibility and from an increasing number of companies applying new business models. Gaining access to commercial resources via license acquisition, exploration, or development of existing assets is key to ensuring the long-term economic viability of the business and failure to address this could negatively impact future performance.

Technology and innovation are key competitive advantages in Equinor's industry – both within the traditional oil and gas industry and the renewable industry. The ability to maintain efficient operations develop and adapt to innovative technologies and digital solutions and seek profitable low-carbon energy solutions are key success factors for future business and resulting performance. Competitors may be able to invest more than Equinor in developing or acquiring intellectual property rights to technology. Equinor could be adversely affected if it lags behind competitors and the industry in general in the development or adoption of innovative technologies, including digitalisation and low-carbon energy solutions.

Project development and production operations

Equinor's development projects and production operations involve uncertainties and operating risks which could prevent Equinor from realising profits and cause substantial losses.

Oil and gas, renewable, low-carbon and climate projects may be curtailed, delayed or cancelled for many reasons. Unexpected events as equipment shortages or failures, natural hazards, unexpected drilling conditions or reservoir characteristics, irregularities in geological formations, challenging soil conditions, accidents, mechanical and technical difficulties, challenges due to new technology and quality issues might have significant impact. The risk is higher in new and challenging areas such as deep waters or other harsh environments. In US onshore, low regional prices may render certain areas unprofitable, and Equinor may curtail production until prices recover. Market changes and low oil, gas and power prices, combined with high levels of tax and government take in several jurisdictions, could erode the profitability of some of Equinor's activities.

Strategic objectives

Equinor may not achieve its strategic objective of successfully exploiting profitable opportunities.

Equinor intends to continue to nurture attractive commercial opportunities to create value. This may involve acquisition of new businesses, properties or moving into new markets. Failure by Equinor to successfully pursue and exploit new business opportunities, including in renewable and new energy solutions, could result in financial losses and inhibit value creation.

Equinor's ability to achieve this strategic objective depends on several factors, including the ability to:

- maintain Equinor's zero-harm safety culture
- identify suitable opportunities
- build a significant and profitable renewables portfolio
- achieve its ambitions to reduce net carbon intensity and reach carbon neutral global operations
- negotiate favorable terms
- compete efficiently in the rising global competition for access to new opportunities
- develop new market opportunities or acquire properties or businesses in an agile and efficient way
- effectively integrate acquired properties or businesses into Equinor's operations
- arrange financing, if necessary
- comply with legal regulations

Equinor anticipates significant investments and costs as it cultivates business opportunities in new and existing markets. New projects and acquisitions may have different embedded risks than Equinor's existing portfolio. As a result, new projects and acquisitions could result in unanticipated liabilities, losses or costs, as well as Equinor having to revise its forecasts either or both with respect to unit production costs and production. In addition, the pursuit of acquisitions or new business opportunities could divert financial and management resources away from Equinor's day-to-day operations to the integration of acquired operations or properties. Equinor may require additional debt or equity financing to undertake or consummate future acquisitions or projects, and such financing may not be available on terms satisfactory to Equinor, if at all, and it may, in the case of equity, be dilutive to Equinor's earnings per share.

Transportation infrastructure

The profitability of Equinor's oil, gas and power production in remote areas may be affected by infrastructure constraints.

Equinor's ability to commercially exploit discovered petroleum resources depends, among other factors, on infrastructure to transport oil, petroleum products and gas to potential buyers at a commercial price. Oil and petroleum products are transported by vessels, rail or pipelines to potential customers/refineries, petchem plants or storage facilities, and natural gas is transported to processing plants and end users by pipeline or vessels (for liquefied natural gas). Equinor's ability to commercially exploit renewable opportunities depends on available infrastructure to transmit electric power to potential buyers at a commercial price. Electricity is transmitted through power transmission and distribution lines. Equinor must secure access to a power system with sufficient capacity to transmit the electric power to the customers. Equinor may be unsuccessful in its efforts to secure transportation, transmission and markets for all its potential production.

International political, social, and economic factors

Equinor has interests in regions where political, social and economic instability could adversely affect Equinor's business.

Equinor has assets and operations in several countries and regions around the globe where negative political, social and economic developments could occur. These developments and related security threats require continuous monitoring. Political instability, civil strife, strikes, insurrections, acts of terrorism and acts of war, adverse and hostile actions against Equinor's staff, its facilities, its transportation systems and its digital infrastructure (cyberattacks) may cause harm to people and disrupt or curtail Equinor's operations and business opportunities, lead to a decline in production and otherwise adversely affect Equinor's business, operations, results and financial condition.

Reputation

Equinor's reputation is an important asset. Erosion of the reputation could adversely affect Equinor's brand, social license to operate, and business opportunity set.

Societal and political expectations of our business and industry are high, especially in Norway with the Norwegian state as Equinor's majority owner. Safe and sustainable operations, ethical business conduct and compliance with laws and regulations are prerequisites for access to natural resources, industrial value creation and contribution to society. Failure to deliver on societal and political expectations, or non-compliance with ethical standards, laws and regulations, HSE and security/cybersecurity incidents could impact our reputation. This could in turn have an adverse effect on Equinor's license to operate, ability to secure new business opportunities, earnings and cash flow.

Norwegian State's exercise of ownership. Failure to deliver on expectations from the Parliament and the Ministry of Petroleum and Energy (MPE), and failure to deliver on societal and political expectations in general could impact the manner which the Norwegian State exercises its ownership of the company.

The MPE's exercise of ownership could also be subject to scrutiny by the Norwegian Parliament. In 2020 the Minister of Petroleum and Energy held a statement before the Parliament making account of Equinor's operations in the US and the MPE's management of the State's ownership.

Workforce

Equinor may not be able to secure the right level of workforce competence and capacity.

As the energy industry is a long-term business, it needs to take a long-term perspective on workforce capacity and competence. The uncertainty of the future of the oil industry, in light of potential reduced oil and natural gas prices, climate policy changes, as well as the climate debate affecting the perception of the industry, pose a risk to securing the right level of workforce competence and capacity through industry cycles.

Changes to Equinor's corporate structure

The implementation of a new corporate structure may pose a risk for upholding safe and secure operations during implementation.

The announced changes to Equinor's corporate structure was decided to further strengthen Equinor's ability to deliver on our strategy of always safe, high value and low carbon. The changes in organisational structures, leadership roles and responsibilities will be detailed out in a stepwise approach before the new structure takes effect 1 June 2021. This process may divert management and employee attention from current tasks and responsibilities with a potential, negative impact on our ability to uphold safe and secure operations.

Insurance coverage

Equinor's insurance coverage may not provide adequate protection from losses.

Equinor maintains insurance coverage that includes coverage for physical damage to its properties, third-party liability, workers' compensation and employers' liability, general liability, sudden pollution and other coverage. Equinor's insurance coverage includes deductibles that must be met prior to recovery and is subject to caps, exclusions and limitations. There is no assurance that such coverage will adequately protect Equinor against liability from all potential consequences and damages. Uninsured losses could have a material adverse effect on Equinor's financial position.

Legal, regulatory and compliance risks

International governmental and regulatory framework

Equinor's operations are subject to dynamic political and legal factors in the countries in which it operates.

Equinor has oil and gas and renewable assets in several countries where the political and regulatory regime can change over time. Further, Equinor has activities in countries with emerging or transitioning economies that, in part or in whole, lack well-functioning and reliable legal systems, where the enforcement of contractual rights is uncertain or where the governmental and regulatory framework is subject to unexpected or rapid change. Equinor's oil and gas exploration and production activities in these countries are often undertaken together with national oil companies and are subject to a significant degree of state control. In recent years, governments and national oil companies in some regions have begun to exercise greater authority and to impose more stringent conditions on energy companies. Intervention by governments in such countries can take a wide variety of forms, including:

- restrictions on exploration, production, imports and exports
- the awarding or denial of exploration and production interests
- the imposition of specific seismic and/or drilling obligations
- price and exchange controls
- tax or royalty increases, imposition of new taxes or other governmental charges
- nationalization or expropriation of Equinor's assets
- unilateral cancellation or modification of Equinor's license, contractual rights or industry incentives
- the renegotiation of contracts
- payment delays and capital transfer restrictions
- currency exchange restrictions or currency devaluation

The likelihood of these occurrences and their overall effect on Equinor vary greatly from country to country and are hard to predict. If such risks materialize, they could cause Equinor to incur material costs, cause decrease in production, and potentially have a materially adverse effect on Equinor's operations or financial condition.

Policies and actions of the Norwegian State could affect Equinor's business

The Norwegian State governs the management of NCS hydrocarbon resources through legislation, such as the Norwegian Petroleum Act, tax law and safety and environmental laws and regulations. The Norwegian State awards licences for exploration, development projects, production, transportation and applications for production rates for individual fields. The Petroleum Act provides that if important public interests are at stake, the Norwegian State may instruct operators on the NCS to reduce petroleum production.

The Norwegian State has a direct participation in petroleum activities through the State's direct financial interest (SDFI). In the production licences in which the SDFI holds an interest, the Norwegian State has the power to direct petroleum licences' actions in certain circumstances.

If the Norwegian State were to change laws, regulations, policies or practices relating to energy or to the oil and gas industry (including in response to environmental, social or governance concerns), or take additional action under its activities on the NCS, Equinor's international and/or NCS exploration, development and production activities and the results of its operations could be affected.

Health, safety and environmental laws and regulations

Compliance with health, safety and environmental laws and regulations that apply to Equinor's activities and operations could materially increase Equinor's costs. The enactment of, or changes to, such laws and regulations could increase such costs or create compliance challenges.

Equinor incurs, and expects to continue to incur, substantial capital, operating, maintenance and remediation costs relating to compliance with increasingly complex laws and regulations for the protection of the environment and human health and safety, as well as in response to concerns relating to climate change, including:

- higher prices on greenhouse gas emissions
- costs of preventing, controlling, eliminating or reducing certain types of emissions to air and discharges to the sea
- remediation of environmental contamination and adverse impacts caused by Equinor's activities
- decommissioning obligations and related costs
- compensation of costs related to persons and/or entities claiming damages as a result of Equinor's activities

In particular, Equinor's activities are increasingly subject to statutory strict liability in respect of losses or damage suffered as a result of pollution caused by spills or discharges of petroleum from petroleum facilities.

Equinor's investments in US onshore producing assets are subject to evolving regulations that could affect these operations and their profitability. In the United States, Federal agencies have taken steps to rescind, delay, or revise regulations seen as overly burdensome to the upstream oil and gas sector, including methane emission controls, though this trend may change with the incoming Administration. Equinor supports Federal regulation of methane emissions and aims to operate in compliance with all current requirements. Equinor has also joined voluntary emission reduction programmes (One Future and API's Environmental Partnership) and implemented a climate roadmap to reduce CO₂ and methane emissions. To the extent new or revised regulations impose additional compliance or data gathering requirements, Equinor could incur higher operating costs.

Compliance with laws, regulations and obligations relating to climate change and other health, safety and environmental laws and regulations could result in substantial capital expenditure, reduced profitability as a result of changes in operating costs, and adverse effects on revenue generation and strategic growth opportunities. However, more stringent climate change regulations could also represent business opportunities for Equinor. For more information about climate change related to legal and regulatory risks, see the risks described under the heading "Transition to a lower carbon economy" in "Risks related to our business, strategy and operations" in this section.

Supervision, regulatory reviews and financial reporting

Equinor conducts business in many countries and its products are marketed and traded worldwide. Equinor is exposed to risk of supervision, review and sanctions for violations of laws and regulations at the supranational, national and local level. These include, among others, laws and regulations relating to financial reporting, taxation, bribery and corruption, securities and commodities trading, fraud, competition and antitrust, safety and the environment, labor and employment practices and data privacy rules.

Violations of applicable laws and regulations may lead to legal liability, substantial fines, claims for damages, criminal sanctions and other sanctions for noncompliance.

Equinor is subject to supervision by the Norwegian Petroleum Supervisor (PSA), which supervises all aspects of Equinor's operations, from exploration drilling through development and operation, to cessation and removal. Its regulatory authority covers the whole NCS including offshore-wind as well as petroleum-related plants on land in Norway. As its business grows internationally, Equinor may become subject to supervision or be required to report to other regulators, and such supervision could result in audit reports, orders and investigations.

Equinor Energy AS' parent company, Equinor ASA is listed on both the Oslo Børs and New York Stock Exchange (NYSE) and is a reporting company under the rules and regulations of the US Securities and Exchange Commission (the SEC). Equinor is required to comply with the continuing obligations of these regulatory authorities, and violation of these obligations may result in legal liability, the imposition of fines and other sanctions.

Equinor is also subject to financial review from financial supervisory authorities such as the Norwegian Financial Supervisory Authority (FSA) and the SEC. Reviews performed by these authorities could result in changes to previously published financial statements and future accounting practices. In addition, failure of external reporting to report data accurately and in compliance with applicable standards could result in regulatory action, legal liability and damage to Equinor's reputation.

Anti-corruption, anti-bribery laws and Equinor's Code of Conduct and the Human Rights policy

Non-compliance with anti-bribery, anti-corruption and other applicable laws or failure to meet Equinor's ethical requirements, including the Human Rights policy, has the potential to expose Equinor to legal liability, lead to a loss of business, and damage our reputation and our social license to operate, as well as shareholder value. It could also lead to an adverse effect on the human rights of various right-holders.

Equinor is a global company with a presence in many parts of the world – including where corruption and bribery represents a high risk and where the human rights situation is challenging. Such risks often exist in combination with weak legal institutions and lack of transparency. Governments routinely play a significant role in the energy sector, through ownership of resources, participation, licensing and local content which leads to a high level of interaction with public officials. Equinor is subject to anti-corruption and bribery laws in multiple jurisdictions, including the Norwegian Penal code, the US Foreign Corrupt Practices Act and the UK Bribery Act. A violation of such applicable anti-corruption or bribery laws could expose Equinor to investigations from multiple authorities and may lead to criminal and/or civil liability with substantial fines. Incidents of noncompliance with applicable anti-corruption and bribery laws and regulations and the Equinor Code of Conduct could be damaging to Equinor's reputation, competitive position and shareholder value. Similarly, failure to uphold our Human Rights policy may damage our reputation and social licence to operate.

Throughout 2020, the organization monitored potential increased risks or changed risk picture with respect to Equinor's ethics and compliance standards due to the Covid-19 situation. Continuation or a resurgence of the pandemic could continue to impact and/or potentially increase our ethics and compliance risks in ways not currently known or considered by us.

International sanctions and trade restrictions

Equinor's activities may be affected by international sanctions and trade restrictions.

In 2020, as previous years, there were several changes to sanctions and international trade restrictions. Equinor seeks to comply with these where they are applicable. Given that Equinor has a diverse portfolio of projects worldwide, this could expose its business and financial affairs to political and economic risks, including operations in markets or sectors targeted by sanctions and international trade restrictions.

Sanctions and trade restrictions are complex, are becoming less predictable and are often implemented on short notice. Equinor's business portfolio is evolving and will constantly be subject to review. Given the current trend in relation to the use of trade restrictions, it is possible that Equinor will decide to take part in new business activity in markets or sectors where sanctions and trade restrictions are particularly relevant.

While Equinor remains committed to do business in compliance with sanctions and trade restrictions and takes steps to ensure, to the extent possible, compliance therewith, there can be no assurance that no Equinor entity, officer, director, employee or agent is not in violation of such sanctions and trade restrictions. Any such violation, even if minor in monetary terms, could result in substantial civil and/or criminal penalties and could materially adversely affect Equinor's business and results of operations or financial condition.

The following discusses Equinor's interests in certain jurisdictions:

Equinor continues to take part in business activities in Russia, where it holds an interest in several offshore and onshore oil and gas projects. Some of these projects result from a strategic cooperation with Rosneft Oil Company (Rosneft) initiated in 2012. In each of these projects, Rosneft holds the majority interest. One of the projects is in Arctic offshore and/or a deep-water area and one is partly in deep water. Norwegian, EU and US trade restrictions and sanctions target several sectors in Russia, including the financial and energy sector, and Rosneft itself is targeted. Accordingly, the manner in which Equinor conducts its business in Russia is affected. Moreover, Equinor's ability to continue to progress its projects in Russia relies in part on government authorisations as well as the future of sanctions and trade controls. While Equinor continues to pursue and expand its business in Russia within existing sanctions and trade controls, it is possible that future political developments could impact Equinor's ability to continue and conclude its projects as envisaged.

Joint arrangements and contractors

Many of Equinor's activities are conducted through joint arrangements and with contractors and sub-contractors which may limit Equinor's influence and control over the performance of such operations. This exposes Equinor to financial, operational, safety, security and compliance risks as well as reputational risks and risks related to ethics, integrity and sustainability, if the operators, partners or contractors fail to fulfil their responsibilities.

Operators, partners and contractors may be unable or unwilling to compensate Equinor against costs incurred on their behalf or on behalf of the arrangement. Equinor is also exposed to enforcement actions by regulators or claimants in the event of an incident in an operation where it does not exercise operational control.

International tax law

Equinor is exposed to potentially adverse changes in the tax regimes of each jurisdiction in which Equinor operates.

Changes in the tax laws of the countries in which Equinor operates could have a material adverse effect on its liquidity and results of operations.

Market, financial and liquidity risks

Foreign exchange

Equinor's business is exposed to foreign exchange rate fluctuations that could adversely affect the results of Equinor's operations.

A large percentage of Equinor's revenues and cash receipts are denominated in USD, and sales of gas and refined products are mainly denominated in EUR and GBP. Further, Equinor pays a large portion of its income taxes, operating expenses, capital expenditures and dividends in NOK. The majority of Equinor's long-term debt has USD exposure. Accordingly, changes in exchange rates between USD, EUR, GBP and NOK may significantly influence Equinor's financial results. See also "Financial risk".

Liquidity and interest rate

Equinor is exposed to liquidity and interest rate risks.

Equinor is exposed to liquidity risk, which is the risk that Equinor will not be able to meet obligations of financial liabilities when they become due. Equinor's main cash outflows include the quarterly dividend payments and Norwegian petroleum tax payments which are paid six times per year. Liquidity risk sources include but are not limited to business interruptions and commodity and financial markets price movements.

Equinor is exposed to interest rate risk, which is the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally long-term debt and associated derivatives. Equinor's bonds are normally issued at fixed rates in a variety of local currencies (USD, EUR and GBP among others). Most bonds are kept as or converted to fixed rate USD while some are converted to floating rate USD by using interest rate and/or currency swaps.

Trading and supply activities

Equinor is exposed to risks relating to trading and supply activities.

Equinor is engaged in trading and commercial activities in the physical markets. Equinor uses financial instruments such as futures, options, over-the-counter (OTC) forward contracts, market swaps and contracts for differences related to crude oil, petroleum products, natural gas and electricity to manage price differences and volatility. Equinor also uses financial instruments to manage foreign exchange and interest rate risk. Trading activities involve elements of forecasting, and Equinor bears the risk of market movements, the risk of losses if prices develop contrary to expectations, and the risk of default by counterparties and transport of liquids.

Financial risk

Equinor is exposed to financial risk.

Equinor Energy AS is exposed to financial risk as guarantor for debt issued by Equinor ASA.

The main factors influencing Equinor's operational and financial results include oil/condensate and natural gas prices and trends in the exchange rates between mainly the USD, EUR, GBP and NOK; Equinor's oil and natural gas entitlement production volumes (which in turn

depend on entitlement volumes under PSAs where applicable) and available petroleum reserves, and Equinor's own, as well as its partners', expertise and cooperation in recovering oil and natural gas from those reserves; and changes in Equinor's portfolio of assets due to acquisitions and disposals.

Equinor's operational and financial results also are affected by trends in the international oil industry, including possible actions by governments and other regulatory authorities in the jurisdictions in which Equinor operates, possible or continued actions by members of the Organization of Petroleum Exporting Countries (OPEC) and/or other producing nations that affect price levels and volumes, refining margins, the cost of oilfield services, supplies and equipment, competition for exploration opportunities and operatorships and deregulation of the natural gas markets, all of which may cause substantial changes to existing market structures and to the overall level and volatility of prices and price differentials.

Significant downward adjustments of Equinor's commodity price assumptions could result in impairments on certain producing and development assets in the portfolio. See note 11 Property, plant and equipment in the Financial statements for sensitivity analysis related to impairments.

Fluctuating foreign exchange rates can also have a significant impact on the operating results. Equinor's revenues and cash flows are mainly denominated in or driven by USD, while a large portion of the operating expenses, capital expenditures and income taxes payable accrue in NOK. In general, an increase in the value of USD in relation to NOK can be expected to increase Equinor's reported net operating income.

Historically, Equinor's revenues have largely been generated by the production of oil and natural gas on the NCS. Norway imposes a 78% marginal tax rate on income from offshore oil and natural gas activities (a symmetrical tax system). Equinor's earnings volatility is moderated as a result of the significant proportion of its Norwegian offshore income that is subject to this 78% tax rate in profitable periods and the significant tax assets generated by its Norwegian offshore operations in any loss-making periods. For 2020 and 2021 the tax value of losses on the NCS will be refunded by the state on a current basis.

Currently, the majority of dividends received by Equinor ASA are from Norwegian companies. Dividends received from Norwegian companies and from similar companies' resident in the EEA for tax purposes, in which the recipient holds more than 90% of the shares and votes, are fully exempt from tax. For other dividends, 3% of the dividends received are subject to the standard income tax rate of 22%, giving an effective tax rate of 0.66%. Dividends from companies resident in low-tax jurisdictions in the EEA that are not able to demonstrate that they are genuinely established and carry on genuine economic business activity within the EEA and dividends from companies in low-tax jurisdictions and portfolio investments below 10% outside the EEA will be subject to the standard income tax rate of 22% based on the full amounts received.

Market risk

Equinor uses financial instruments to manage commodity price risks, interest rate risks, currency risks and liquidity risks. Significant amounts of assets and liabilities are accounted for as financial instruments.

See also note 4 Financial risk management and measurement of financial instruments in the Financial statements.

Risks related to state ownership

This section discusses some of the potential risks relating to Equinor's business that could derive from the Norwegian State's majority ownership and from Equinor's involvement in the SDFI.

Control by the Norwegian State

The interests of Equinor's majority shareholder, the Norwegian State, may not always be aligned with the interests of Equinor's other shareholders, and this may affect Equinor's activities, including its decisions relating to the NCS.

The Norwegian State has resolved that its shares in Equinor and the SDFI's interest in NCS licences must be managed in accordance with a coordinated ownership strategy for the Norwegian State's oil and gas interests. Under this strategy, the Norwegian State has required Equinor to market the Norwegian State's oil and gas together with Equinor's own oil and gas as a single economic unit. Pursuant to this coordinated ownership strategy, the Norwegian State requires Equinor, in its activities on the NCS, to take account of the Norwegian State's interests in all decisions that may affect the marketing of Equinor's own and the Norwegian State's oil and gas.

The Norwegian State directly held 67% of Equinor's ordinary shares as of 31 December 2020 and has effectively the power to influence the outcome of any vote of shareholders, including amending its articles of association and electing all non-employee members of the corporate assembly. The interests of the Norwegian State in deciding these and other matters and the factors it considers when casting its votes, especially the coordinated ownership strategy for the SDFI and Equinor's shares held by the Norwegian State, could be different from the interests of Equinor's other shareholders.

If the Norwegian State's coordinated ownership strategy is not implemented and pursued in the future, then Equinor's mandate to continue to sell the Norwegian State's oil and gas together with its own oil and gas as a single economic unit is likely to be prejudiced. Loss of the mandate to sell the SDFI's oil and gas could have an adverse effect on Equinor's position in the markets in which it operates.

Risk management

As discussed above, Equinor activities carry risk, and risk management is therefore an integrated part of Equinor's business operations. Equinor's risk management includes identifying, analysing, evaluating and managing risk in all its activities in order to create value and avoid incidents, always with Equinor's best interest in mind.

To achieve optimal solutions, Equinor bases its risk management on an enterprise risk management (ERM) approach where:

- focus is on the value impact for Equinor, including upside and downside risk
- risk is managed in compliance with Equinor's requirements with a strong focus on avoiding HSE, human rights and business integrity incidents (such as accidents, fraud and corruption)

Managing risk is an integral part of any manager's responsibility. In general, risk is managed in the business line, but some risks are managed at the corporate level to provide optimal solutions. Risks managed at the corporate level include oil and natural gas price risks, interest and currency risks, risk dimension in the strategy work, prioritisation processes and capital structure discussions.

ERM involves using a holistic approach where correlations between risks and the natural hedges inherent in Equinor's portfolio are considered. This approach allows Equinor to reduce the number of risk management transactions and avoid sub-optimisation. Some risks related to operations are partly insurable and insured via Equinor's captive insurance company operating in the Norwegian and international insurance markets. Equinor also assesses oil and gas price hedging opportunities on a regular basis as a tool to increase financial robustness and strengthen flexibility.

Risk is integrated into the company's Management Information System (IT tool) where Equinor's purpose, vision and strategy are translated into strategic objectives, risks, actions and KPIs. This allows for aligning risk with strategic objectives and performance and makes risk an embedded part of a holistic decision basis. Equinor's risk management process is aligned with ISO31000 Risk management – principles and guidelines. A standardised process across Equinor allows for comparing risk on a like-for-like basis and supports efficiency in decisions. The process seeks to ensure that risks are identified, analysed, evaluated and managed. In general, risk adjusting actions are subject to a cost-benefit evaluation (except certain safety related risks which could be subject to specific regulations).

Equinor's corporate risk committee, headed by the chief financial officer, is responsible for defining, developing and reviewing Equinor's risk policies and methodology. The committee is also responsible for overseeing and developing Equinor's Enterprise Risk Management and proposing appropriate measures to manage the overall risk profile.

Outlook and market view

Equinor Energy AS aims to deepen and prolong its position on the Norwegian continental shelf (NCS) by accessing and maturing opportunities into valuable production. At the same time, Equinor Energy AS plans to improve the efficiency, reliability, carbon emissions and lifespan of fields already in production.

High volatility continued into 2020 resulting in a lower price environment throughout the year with the oil price dramatically declining in the first three months followed by a steady increase for the rest of the year resulted in the oil price closing the year at USD 51.2 per barrel. Geopolitical shifts, challenges in liquids resource replenishments, market cyclicality, the impact of Covid-19, structural changes to costs and increasing momentum towards low carbon implies uncertainty and volatility. To be prepared, Equinor Energy AS is focusing on building a more resilient, diverse and option-rich portfolio, delivered by an agile organisation that embraces change and empowers its people. To deliver on the sharpened strategy and fulfil the strategic intent of "always safe, high value, low carbon", Equinor Energy AS will continue to build on the unique position to maximize and develop long-term value on the NCS.

Equinor Energy AS' income could vary significantly with changes in commodity prices, even if volumes remain stable through the year. There is a small seasonal effect on volumes in the winter and summer seasons due to normally higher off-takes of natural gas during cold periods. There is normally an additional small seasonal effect on volumes as a result of the higher maintenance activity level on offshore production facilities during the second and third quarters each year, since generally better weather conditions allow for more maintenance work.

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.

Safety, security and sustainability¹

Equinor Energy AS' ambition is to be an industry leader in safety, security and sustainability

Health, safety and security

2020 was an extraordinary year for us as a company, for our employees and our contractors. The Covid-19 pandemic affected our business activities and operations, making it more difficult to conduct our business in accordance with our plans. From the outset, we formed a taskforce of medical professionals which focused on minimizing the risk of transmission to people in our offices and our offshore and onshore operations. The taskforce worked closely with business leaders to ensure business continuity while avoiding transmission of the virus by proactively identifying and mitigating risk at a strategic, tactical and operational level. We adjusted manning based on location-specific risk exposure, and for some periods, a significant part of the workforce worked from home.

One of our strategic pillars, "Always safe", is guided by our commitment to prevent harm to people's health, safety and security, and to the environment. We aim to continuously develop a proactive safety culture where safe and secure operations are incorporated into everything we do. A key component to this work is having a long-term commitment to some key company-wide priorities. In 2019 we started implementing improvements within four areas: safety visibility, leadership and behaviour, learning and follow up and safety indicators. In 2020 we developed an 'I am safety' roadmap to ensure the continuation of this work and to set a clear direction towards 2025. The roadmap specifies key measures and in 2020 we implemented four of these: a company-wide annual plan that defines quarterly priority topics, strengthened implementation of "Lifesaving rules", enhanced learning and follow up, and collaboration with key contractors.

In 2020, we experienced no major accidents and no fatalities. The total serious incident frequency, which includes near misses, was 1.0 incident per million work hours in 2020, up from 0.9 in 2019. One of the serious incidents was related to a fire in a turbine at the Hammerfest LNG plant at Melkøya.

The total recordable injury frequency per million hours worked (TRIF) was 3.8, which is down from 4.2 in 2019. For accidental oil spills, the total oil spill volume decreased from 158 m³ in 2019 to 25 m³ in 2020.

Preventing oil and gas leakages is important to avoid major accidents. The total number of oil and gas leakages ≥ 0.1 kg per sec increased from 1 in 2019 to 4 in 2020. All leakages of this magnitude are subject to formal investigation in order to capture learning.

Climate and energy transition

Equinor acknowledges scientific consensus on climate change and supports the goals of the Paris Agreement. We recognise that the world's energy systems must be transformed in a profound way to drive decarbonisation. At the same time universal access to affordable and clean energy must be ensured while supporting the United Nations Sustainable Development Goals.

In 2020, we further strengthened our climate roadmap with the ambition of becoming a net-zero company by 2050. The ambition includes emissions from production and final use of energy. We also announced plans to reduce absolute greenhouse gas (GHG) emissions in Norway to near zero by 2050.

Direct greenhouse gas emissions decreased from 10,4 million tonnes CO₂e in 2019 to 9,8 million tonnes CO₂e in 2020. The main driver to the decrease is the fire at Hammerfest LNG in September 2020 which caused a plant shutdown for the rest of the year. In addition, government-imposed cut in oil production affected several assets on the Norwegian Continental Shelf. Greenhouse gas emissions include carbon dioxide (CO₂) and methane (CH₄), where CO₂ constitutes the largest part; 9,6 million tonnes CO₂ in 2020 compared to 10,1 million tonnes CO₂ in 2019. Methane (CH₄) emissions increased from 9,9 tonnes in 2019 to 11,6 tonnes CH₄ in 2020, mainly as a consequence of improved CH₄ calculation methodology at the Heidrun platform and higher volumes of cold venting at Åsgard B.

The CO₂ intensity for Equinor Energy AS' offshore assets (upstream CO₂ intensity) decreased from 9kg CO₂ per boe in 2019 to 8kg CO₂ per boe in 2020. The key driver for the positive development is the Johan Sverdrup field which is powered from shore and had its first full year of production in 2020.

The intensity for Equinor's Norwegian offshore portfolio is significantly lower than the global industry average² of 17kg CO₂ per boe.

Environmental impact

We value the importance of our planet's natural environment and strive to adhere to high standards to responsibly manage our environmental impact. Being a large offshore oil and gas operator, biodiversity and sensitive areas in the marine environment are of particular importance to us. In this respect, significant environmental aspects to manage include discharges of produced and processed water to sea, spills, emissions of NO_x and SO_x, and waste management.

¹ All data in this section are reported based on an operational control boundary

² International association of oil and gas producers (IOGP) Annual Environmental Performance indicators – IOGP members annual report. The reporting is lagging one year, so the industry average given is based on 2019 data.

Our efforts to continuously improve our management of discharges of large volumes of produced and processed water to the sea continued in 2020. The main objective is to minimise the environmental impact from oil and chemicals contained in the discharged water. The total volume of oil discharged to sea increased by 5% in 2020 compared to 2019. The increase was mainly due to increased volumes of produced water discharged and efforts to reduce use of harmful chemicals leading to lower oil separation efficiency.

NOx emissions have decreased by 5% from 2019 to 2020, mainly due to less gas injection and an associated decrease in energy generation at Oseberg and focus on energy optimisation. SOx emissions decreased by 9% in 2020, largely as a result of high levels of SOx at Snorre in 2019 where diesel fuel was used for power generation during several shutdowns. There are no significant changes in emissions of non-volatile organic compounds (nmVOC) emissions compared to 2019 levels.

In 2020, the total volume of generated waste was 215 thousand tonnes compared to 197 thousand tonnes in 2019. The main contributor to the change is an increase in hazardous waste because of increased drilling activity on the NCS. The hazardous waste volumes increased by 12% from 180 thousand tonnes in 2019 to 200 thousand tonnes in 2020. The non-hazardous waste decreased from 19 to 15 thousand tonnes (18% reduction), mainly due to less activities related to maintenance at Kårstø compared to 2019.

Working with suppliers

Equinor Energy AS is committed to using suppliers who operate consistently in accordance with the company's values and who maintain high standards of safety, security and sustainability. These aspects are incorporated in all phases of the procurement process. All potential suppliers must meet Equinor Energy AS' minimum requirements in order to qualify as a supplier and these include safety, security and sustainability criteria.

Human rights

Our responsibility and commitment to ensuring the safety of our employees and those affected by our business remain core to our strategic commitment, "always safe". Understanding and managing our risks so as to avoid harm to people, related to all our activities, stand firm and is consistent with the United Nations Guiding Principles on Business and Human Rights (the UNGPs), the ten principles of the Global Compact and the Voluntary Principles on Security and Human Rights.

In 2020, we worked to further integrate the human rights lens into our management system, build capacity to address and manage risks, and continued to embed human rights due diligence into our work processes. The Covid-19 pandemic introduced the need for new ways of engaging with potentially affected stakeholders in a time where risks of human rights impacts were exacerbated.

In 2020, our human rights policy was updated. It addresses the most relevant human rights issues to Equinor, strengthens our expectations towards business partners and suppliers and sets out clearer commitments towards rights at particular risk.

We have continued to build awareness of Equinor's responsibility to respect human rights and invested in more specific training for prioritized teams and individuals through classroom and virtual training programs. The supply chain continues to be an important priority in our human rights work. We continued to embed human rights due diligence in the internal supply chain management process, to enable more effective risk management in new procurements.

Transparency, ethics and anti-corruption

Our commitment to conduct business in an ethical, socially responsible and transparent manner has during the Covid-19 pandemic remained the same. We maintained an open dialogue on ethical issues, both internally and externally.

Our Code of Conduct, which was updated in 2020, sets out our commitment and requirements for how we do business at Equinor. It applies to our employees, Equinor board members and hired contractors. We train our employees on how to apply the Code of Conduct in their daily work and require all employees to confirm annually that they understand and will comply with the Code of Conduct. We expect our suppliers to act in a way that is consistent with our Code of Conduct.

Equinor's Anti-Corruption Compliance Program summarises the standards, requirements and procedures implemented to comply with applicable laws and regulations and maintaining our high ethical standards. The program lays down the foundation for ensuring that anti-bribery and corruption risks are identified, concerns are reported, and measures are taken to mitigate risk in all parts of the organisation. Equinor's Code of Conduct also addresses the requirement to comply with applicable competition and antitrust laws. Our Competition and Antitrust Program consists of governing documents and manuals, training of employees in high-risk positions as well as risk assessments and assurance activities.

Covid-19 represents a global crisis that affects Equinor, our suppliers, partners, governments and society at large. During the crisis we have focused on upholding our standards and the effectiveness of our programs. Several measures have been taken to adapt to the situation. New trainings were developed and conducted digitally and Equinor proactively held internal awareness sessions and contacted suppliers to emphasize our commitment to ethical business practice and zero tolerance for corruption, fraud or breaches of law, during the crisis.

People and organisation

Equinor Energy AS has no employees, and relies on the services provided by other companies in the Equinor group and the Equinor group's principles and practices pertaining to people and organisation.

Research and development

Equinor is a technology intensive group of companies and research and development is an integral part of its strategy.

Improved oil and gas recovery and improved drilling and well solutions are important to successfully fight declining production from mature fields. The research and development work is managed at Equinor group level, and is in close cooperation with universities and research institutions. Equinor has achieved some of the petroleum industry's highest recovery factors on the Norwegian continental shelf by combining scientific and engineering capabilities and boldly introducing new technology. As a part of the Equinor group, we contribute to the group's intention to further advance the most important technologies to meet forthcoming improved oil recovery ambitions.

Research and development expenditures were USD 203 million in 2020, compared to USD 229 million in 2019.

Board of directors

At present, Equinor Energy AS' board of directors consists of 5 members.

The board held four meetings in 2020, in addition to 11 extraordinary meetings. The average meeting attendance at these board meetings was 85%.

STAVANGER, 26 MARCH 2021

THE BOARD OF DIRECTORS OF EQUINOR ENERGY AS

/s/ SVEIN SKEIE
CHAIR

/s/ KJELL BYBERG
MANAGING DIRECTOR

/s/ METTE FERKINGSTAD

/s/ GEIR AALHUS

/s/ SIV HELEN RYGH TORSTENSEN

Financial statements

STATEMENT OF INCOME EQUINOR ENERGY AS

(in USD million)	Note	Full year	
		2020	2019
Revenues	5	14,444	20,500
Net income/(loss) from subsidiaries and other equity accounted investments	13	(5,267)	(2,941)
Other income	3	33	194
Total revenues and other income		9,210	17,753
Purchases [net of inventory variation]		(263)	(466)
Operating expenses		(3,535)	(3,960)
Selling, general and administrative expenses		(76)	(56)
Depreciation, amortisation and net impairment losses	11, 12	(6,174)	(5,821)
Exploration expenses	12	(423)	(478)
Total operating expenses		(10,471)	(10,780)
Net operating income/(loss)		(1,261)	6,973
Interest expenses and other financial expenses		(407)	(404)
Other financial items		202	86
Net financial items	9	(205)	(318)
Income/(loss) before tax		(1,467)	6,654
Income tax	10	(1,739)	(6,822)
Net income/(loss)		(3,205)	(168)

STATEMENT OF COMPREHENSIVE INCOME EQUINOR ENERGY AS

(in USD million)	Note	Full year 2020	2019
Net income/(loss)		(3,205)	(168)
Foreign currency translation effects		331	(13)
Items that may subsequently be reclassified to the Statement of income		331	(13)
Other comprehensive income/(loss)		331	(13)
Total comprehensive income/(loss)		(2,874)	(181)
Attributable to the equity holders of the company		(2,874)	(181)

BALANCE SHEET EQUINOR ENERGY AS

(in USD million)	Note	At 31 December	
		2020	2019
ASSETS			
Property, plant and equipment	11	37,616	36,018
Intangible assets	12	1,579	1,542
Investments in subsidiaries and other equity accounted investments	13	17,863	22,106
Derivative financial instruments	4	203	204
Prepayments and financial receivables		120	132
Receivables from group companies	14	24	(0)
Total non-current assets		57,404	60,002
Inventories		128	134
Trade and other receivables	15	687	708
Receivables from group companies	14	6,130	6,257
Derivative financial instruments	4	20	30
Total current assets		6,964	7,129
Total assets		64,369	67,131
EQUITY AND LIABILITIES			
Share capital		5,530	5,530
Additional paid-in capital		9,505	9,505
Reserves for unrealised gains		60	53
Retained earnings		7,902	14,625
Other reserves		(3,148)	(3,479)
Total equity	16	19,848	26,233
Lease liabilities	19	1,139	1,198
Deferred tax liabilities	10	10,783	9,055
Liabilities to group companies	14	12,468	11,976
Provisions and other liabilities	17	12,642	10,142
Total non-current liabilities		37,032	32,371
Trade, other payables and provisions	18	1,974	2,350
Current tax payable	10	770	3,210
Lease liabilities	19	480	479
Liabilities to group companies	14	4,264	2,489
Total current liabilities		7,489	8,527
Total liabilities		44,520	40,898
Total equity and liabilities		64,369	67,131

STATEMENT OF CASH FLOWS EQUINOR ENERGY AS

(in USD million)	Note	2020	Full year 2019
Income/(loss) before tax		(1,467)	6,654
Depreciation, amortisation and net impairment losses	11, 12	6,174	5,821
Exploration expenditures written off	12	91	59
(Gains)/losses on foreign currency transactions and balances		(127)	31
(Gains)/losses on sale of assets and businesses	3	(9)	(149)
(Income)/loss from equity accounted subsidiaries and investments without cash effects		5,649	3,404
(Increase)/decrease in other items related to operating activities		231	310
(Increase)/decrease in net derivative financial instruments		(122)	(52)
Interest received		93	113
Interest paid		(154)	(59)
Cash flows provided by operating activities before taxes paid and working capital items		10,359	16,132
Taxes paid		(2,535)	(7,669)
(Increase)/decrease in working capital		278	(31)
Cash flows provided by operating activities		8,102	8,433
Cash used in business combinations	3	0	(1,024)
Capital expenditures and investments	11, 12, 13	(5,903)	(7,255)
(Increase)/decrease in other interest bearing items		(3)	2
Proceeds from sale of assets and businesses and capital contribution received		38	20
Cash flows used in investing activities		(5,868)	(8,258)
Repayment of lease liabilities	19	(478)	(434)
Increase/(decrease) in financial receivables and liabilities to/from Equinor group companies ¹⁾	14	(1,735)	248
Cash flows provided by/(used in) financing activities		(2,213)	(186)
Net increase/(decrease) in cash and cash equivalents		21	(11)
Foreign currency translation effects		5	(1)
Cash and cash equivalents at the beginning of the period		15	27
Cash and cash equivalents at the end of the period²⁾		41	15

1) Including deposits in Equinor group's internal bank arrangement.

2) Cash and cash equivalents represent a receivable against the cash pool in Equinor ASA, and are included in the line Trade and other receivables in the balance sheet.

Notes to the Financial statements Equinor Energy AS

1 Organisation

Equinor Energy AS was founded in 2007 as a demerger of Norsk Hydro Produksjon AS, prior to and in connection with the merger between Equinor ASA and the oil and gas activities of Norsk Hydro ASA (Hydro Petroleum), which was effective 1 October 2007. The company is incorporated and domiciled in Norway. The address of its registered office is Forusbeen 50, N-4035 Stavanger, Norway.

Equinor Energy AS' business consists of the exploration, production and transportation of petroleum and petroleum-derived products, as well as financial support to other Equinor group entities. The group internal financial support includes the issuance of guarantees, and serving as co-obligor for certain finance debt entered into by Equinor ASA. The Equinor group's net assets on the Norwegian continental shelf are owned by Equinor Energy AS.

Equinor Energy AS is consolidated into Equinor ASA's Consolidated financial statements, cf. Equinor ASA's annual report. In accordance with the Norwegian Accounting Act §3-7, Equinor Energy AS does not prepare consolidated financial statements. For more information see Equinor ASA's annual report 2020. The Consolidated financial statements can be obtained by contacting Equinor ASA, Forusbeen 50, 4035 Stavanger or from the website, www.equinor.com.

The financial statements of Equinor Energy AS for the full year 2020 were authorised for issue in accordance with a resolution of the board of directors on 26 March 2021.

2 Significant accounting policies

Statement of compliance

The financial statements of Equinor Energy AS ("the company" or "Equinor") are prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014.

Basis of preparation

The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. These policies have been applied consistently to all periods presented in these financial statements, except as otherwise noted. Certain amounts in the comparable years have been restated to conform to current year presentation. The subtotals and totals in some of the tables in the notes may not equal the sum of the amounts shown in the primary financial statements due to rounding.

The statement of cash flows has been prepared in accordance with the indirect method.

Subsidiaries, associated companies and joint arrangements

Shareholdings and interests in subsidiaries and associated companies (companies in which Equinor Energy AS does not have control, or joint control, but has the ability to exercise significant influence over operating and financial policies, generally when the ownership share is between 20% and 50%), as well as Equinor's participation in joint arrangements that are joint ventures, are accounted for using the equity method. Under the equity method, the investment is carried on the balance sheet at cost plus post-acquisition changes in Equinor Energy AS' share of net assets of the entity, less distribution received and less any impairment in value of the investment. Goodwill may arise as the surplus of the cost of investment over Equinor's share of the net fair value of the identifiable assets and liabilities of the subsidiary, joint venture or associate. Goodwill included in the balance sheets of subsidiaries and associated companies is tested for impairment as part of the related investment in the subsidiary or associated company. The Statement of income reflects Equinor's share of the results after tax of an equity-accounted entity, adjusted to account for depreciation, amortisation and any impairment of the equity-accounted entity's assets based on their fair values at the date of acquisition in situations where Equinor Energy AS has not been the owner since the establishment of the entity. Net income/loss from equity accounted investments is presented as part of Total revenues and other income, as these investments in other companies engaged in energy-related business activities are considered part of Equinor's main operating activities.

Reserves for valuation variances included within the Company's equity are established based on the sum of contributions from the individual equity accounted investment, with the limitation that the net amount cannot be negative.

Interests in joint operations (arrangements in which Equinor and other participants have joint control and each of the parties have rights to the assets and obligations for the liabilities, relating to their respective share of the arrangement) and similar arrangements (licences) outside the scope of IFRS 11 are recognised on a line-by-line basis, reflecting Equinor Energy AS' share of assets, liabilities, income and expenses.

Indirect operating expenses, such as personnel expenses from Equinor ASA, are accumulated in cost pools. These costs are allocated on an hour incurred basis to business areas and to Equinor-operated joint operations under IFRS 11 and to similar arrangements (licences) outside the scope of IFRS 11. Costs allocated to the other partners' share of operated joint operations and similar arrangements reduce the costs in the Statement of income.

Asset transfers between Equinor Energy AS and its subsidiaries

Transfers of assets and liabilities between Equinor Energy AS and entities directly or indirectly controlled by Equinor Energy AS are accounted for at the carrying amounts of the assets and liabilities transferred, when the transfer is part of a reorganisation within the Equinor group.

Functional currency and foreign currency translations

Equinor Energy AS' functional currency is Norwegian Krone (NOK), based on an evaluation of the Company's primary environment and related cash-flows. Transactions in foreign currencies are translated to NOK, at the foreign exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to NOK at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of income. Non-monetary assets that are measured at historical cost in a foreign currency are translated using the exchange rate at the dates of the transactions.

Presentation currency

The statement of income, the balance sheet and the cash flows of Equinor Energy AS are translated from NOK into the presentation currency USD, in consistence with the presentation currency of Equinor ASA and the Group. Assets and liabilities are translated into USD at the foreign currency exchange rate at the balance sheet date. Revenues and expenses are translated using the foreign currency exchange rates on the dates of the transactions. Foreign exchange differences arising on translation from functional currency to presentation currency are recognised separately within Other comprehensive income (OCI). Translation currency rates (NOK/USD) applicable for the period are as follows: 8.78 (31 December 2019), 8.53 (31 December 2020) and 9.40 (year-average).

Revenues

Revenue from contracts with customers is recognised upon satisfaction of the performance obligations for the transfer of goods and services in each such contract. The revenue amounts that are recognised reflect the consideration to which Equinor expects to be entitled in exchange for those goods and services. Revenue from the sale of crude oil, natural gas, petroleum products and other merchandise is recognised when a customer obtains control of those products, which normally is when title passes at point of delivery, based on the contractual terms of the agreements. Each such sale normally represents a single performance obligation. In the case of natural gas, sales are completed over time in line with the delivery of the actual physical quantities.

Revenues from the production of oil and gas properties in which Equinor shares an interest with other companies are recognised on basis of volumes lifted and sold to customers during the period (the sales method). Where Equinor has lifted and sold more than the ownership interest, an accrual is recognised for the cost of the overlift. Where Equinor has lifted and sold less than the ownership interest, costs are deferred for the underlift.

Research and development

The company undertakes research and development both on a funded basis for licence holders, and on an unfunded basis for projects at its own risk. The company's own share of the licence holders' funding and the total costs of the unfunded projects are considered for capitalisation under the applicable IFRS requirements. All other research and development expenditures are expensed as incurred. Subsequent to initial recognition, any capitalised development costs are reported at cost less accumulated amortisation and accumulated impairment losses.

Income tax

Income tax in the statement of income for the year comprises current and deferred tax expense. Income tax is recognised in the statement of income except when it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax consists of the expected tax payable on the taxable income for the year and any adjustment to tax payable for previous years. Uncertain tax positions and potential tax exposures are analysed individually, and the most likely amount for probable liabilities to be paid (unpaid potential tax exposure amounts, including penalties) and assets to be received (disputed tax positions for which payment has already been made) in each case are recognised within current tax or deferred tax as appropriate. Interest income and interest expenses relating to tax issues are estimated and recognised in the period in which they are earned or incurred and are presented within Net financial items in the statement of income. Uplift benefit on the Norwegian continental shelf (NCS) is recognised when the deduction is included in the current year tax return and impacts taxes payable.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, subject to the initial recognition exemption. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the asset can be utilised. In order for a deferred tax asset to be recognised based on future taxable income, convincing evidence is required, taking into account the existence of contracts, production of oil or gas in the

near future based on volumes of proved reserves, observable prices in active markets, expected volatility of trading profits and similar facts and circumstances. When an asset retirement obligation or a lease contract is initially reflected in the accounts, a deferred tax liability and a corresponding deferred tax asset are recognised simultaneously and accounted for in line with other deferred tax items.

Oil and gas exploration, evaluation and development expenditures

Equinor Energy AS uses the successful efforts method of accounting for oil and gas exploration costs. Expenditures to acquire mineral interests in oil and gas properties and to drill and equip exploratory wells are capitalised as exploration and evaluation expenditures within Intangible assets until the well is complete and the results have been evaluated, or there is any other indicator of a potential impairment. Exploration wells that discover potentially economic quantities of oil and natural gas remain capitalised as intangible assets during the evaluation phase of the find. This evaluation is normally finalised within one year after well completion. If, following the evaluation, the exploratory well has not found potentially commercial quantities of hydrocarbons, the previously capitalised costs are evaluated for derecognition or tested for impairment. Geological and geophysical costs and other exploration and evaluation expenditures are expensed as incurred.

Capitalised exploration and evaluation expenditures, including expenditures to acquire mineral interests in oil and gas properties, related to wells that find proved reserves, are transferred from exploration expenditure (Intangible assets) to assets under development (Property, plant and equipment) at the time of sanctioning of the development project. The timing from evaluation of a discovery until a project is sanctioned could take several years depending on the location and maturity, including existing infrastructure, of the area of discovery, whether a host government agreement is in place, the complexity of the project and the financial robustness of the project.

For exploration and evaluation asset acquisitions (farm-in arrangements) in which the company has made arrangements to fund a portion of the selling partners' exploration and/or future development expenditures (carried interests), these expenditures are reflected in the financial statements as and when the exploration and development work progresses. The company reflects exploration and evaluation asset dispositions (farm-out arrangements) on a historical cost basis with no gain or loss recognition.

A gain related to a post-tax-based disposition of assets on the NCS includes the release of tax liabilities previously computed and recognised related to the assets in question. The resulting gross gain is recognised in full in the line item Other income in the statement of income.

Exchanges (swaps) of exploration and evaluation assets are accounted for at the carrying amounts of the assets given up with no gain or loss recognition.

Property, plant and equipment

Property, plant and equipment is reflected at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of an asset retirement obligation, if any, exploration costs transferred from intangible assets and, for qualifying assets, borrowing costs. Proceeds from production ahead of a project's final approval is regarded as "early production" and are recognised as revenue rather than as a reduction of acquisition cost.

Exchanges of assets are measured at the fair value, primarily of the asset given up, unless the fair value of neither the asset received, nor the asset given up is measurable with sufficient reliability.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised. Inspection and overhaul costs, associated with regularly scheduled major maintenance programs planned and carried out at recurring intervals exceeding one year, are capitalised and amortised over the period to the next scheduled inspection and overhaul. All other maintenance costs are expensed as incurred.

Capitalised exploration and evaluation expenditures, development expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of production wells, and field-dedicated transport systems for oil and gas are capitalised as producing oil and gas properties within Property, plant and equipment. Such capitalised costs, when designed for significantly larger volumes than the reserves from already developed and producing wells, are depreciated using the unit of production method based on proved reserves expected to be recovered from the area during the concession or contract period. Depreciation of production wells uses the unit of production method based on proved developed reserves, and capitalised acquisition costs of proved properties are depreciated using the unit of production method based on total proved reserves. In the rare circumstances where the use of proved reserves fails to provide an appropriate basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed, a more appropriate reserve estimate is used. Depreciation of other assets and transport systems used by several fields is calculated on the basis of their estimated useful lives, normally using the straight-line method. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. For exploration and production assets the company has established separate depreciation categories which as a minimum distinguish between platforms, pipelines and wells.

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in Other income or Operating expenses, respectively, in the period the item is derecognised.

Leases

A lease is defined as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Equinor Energy AS is for most part the lessee in its lease contracts, where the company leases assets used in its operations, such as drilling rigs, supply vessels, land bases and helicopters. As a lessee, for each contract that meets the definition of a lease, Equinor Energy AS recognises a lease liability at commencement of the lease term, equal to the net present value of non-variable lease payments over the lease term. The lease term includes non-cancellable lease periods under the lease contracts, including periods covered by lease extension options considered reasonably certain to be executed and periods covered by lease termination options, when the lease termination options are considered reasonably certain not to be exercised. Short-term leases (<12 months), leases of low value assets, variable lease elements and non-lease components within lease contracts are expensed as incurred. The discount rate used to calculate the lease liability is based on Equinor Energy AS' incremental borrowing rate. Correspondingly, a right of use (RoU) asset is recognised at an amount which normally would equal the lease liability. The RoU asset is depreciated over the lease term, unless the lease costs are included in the cost of another asset, typically in exploration or development activities.

Lease payments are separated into repayment of the lease liability, presented within cash flows used in financing activities in the statement of cash flows, and payments of interests, presented with financial items in the income statement and operating cash flows in the statement of cash flows.

Where all partners in a licence are considered to share the primary responsibility for lease payments under a contract, the related lease liability and RoU asset will be recognised net by Equinor, on the basis of Equinor's participation interest in the licence. When Equinor is considered to have the primary responsibility for the full external lease payments, the lease liability is recognised gross (100%). Equinor derecognises a portion of the RoU asset equal to the non-operator's interests in the lease, and replace it with a corresponding financial lease receivable, if a financial sublease is considered to exist between Equinor and the licence. A financial sublease will typically exist where Equinor enters into a contract in its own name, has the primary responsibility for the external lease payments, the underlying asset will only be used on one specific licence, and the costs and risks related to the use of the asset are carried by that specific licence.

Intangible assets including goodwill

Intangible assets are stated at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets mainly include expenditure on the exploration for and evaluation of oil and natural gas resources.

Intangible assets relating to expenditures on the exploration for and evaluation of oil and natural gas resources are not amortised. When the decision to develop a particular area is made, its intangible exploration and evaluation assets are reclassified to Property, plant and equipment.

Goodwill is initially measured at the excess of the aggregate of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed in a business combination at the acquisition date. Goodwill acquired is allocated to each cash generating unit (CGU), or group of units, expected to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. In acquisitions made on a post-tax basis according to the rules on the NCS, a provision for deferred tax is reflected in the accounts based on the difference between the acquisition cost and the transferred tax depreciation basis. The offsetting entry to such deferred tax amounts is reflected as goodwill, which is allocated to the CGU or group of CGUs on whose tax depreciation basis the deferred tax has been computed.

Other intangible assets with a finite useful life, are depreciated over their useful life using the straight-line method.

Financial assets excluding derivatives

Financial assets are initially recognised at fair value. Trade and other receivables are subsequently carried at amortised cost, which for receivables are represented by the original invoice amount, less a provision for doubtful receivables which represents expected losses computed on a probability-weighted basis. The line item Trade and other receivables also includes the Company's cash and cash equivalents, as these represent a receivable against the cash pool in Equinor ASA.

Financial assets are presented as current if these contractually will expire or otherwise are expected to be recovered within 12 months after the balance sheet date, or if these are held for the purpose of being traded. Financial assets and financial liabilities are shown separately in the Balance sheet, unless Equinor has both a legal right and a demonstrable intention to net settle certain balances payable to and receivable from the same counterparty, in which case they are shown net in the balance sheet.

Derivative financial instruments

Equinor uses commodity-based derivative financial instruments to manage certain exposures to fluctuations in commodity prices. As described in note 21 Related parties, Equinor Energy AS carries the risk related to certain contracts entered into by Equinor ASA through

back-to-back arrangements. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value through profit and loss. Equinor Energy AS presents the fair value of such derivative positions as intercompany receivables or liabilities towards Equinor ASA. The impact of commodity-based derivative financial instruments is recognised in the Statement of income under Revenues, as such derivative instruments are related to sales contracts or revenue-related risk management for all significant purposes.

Embedded derivatives within sales or purchase contracts between Equinor Energy AS and other companies within the Equinor group are not separated from the host contract.

Reserves for unrealised gains included within the Company's equity consists of accumulated unrealised gains on non-exchange traded financial instruments and the fair value of embedded derivatives, with the limitation that the net amount cannot be negative.

Contingent consideration which is included in Equinor's sales transactions from time to time is initially reflected at its fair value in the computation of transaction gain or loss, and, depending on the terms of the agreement, subsequently in most cases have been reflected in the accounts as a derivative, with the impact on the statement of income included in Other income.

Inventories

Commodity inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Inventories of drilling and spare parts are reflected according to the weighted average method.

Impairment of intangible assets and of property, plant and equipment

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped based on lowest levels with separately identifiable and largely independent cash inflows. Normally, separate cash generating units (CGUs) are individual oil and gas fields or plants. For capitalised exploration expenditures, the CGUs are individual wells. In Equinor Energy AS' line of business, judgement is involved in determining what constitutes a CGU. Development in production, infrastructure solutions, markets, product pricing, management actions and other factors may over time lead to changes in CGUs such as the disaggregation of one original CGU into several.

In assessing whether a write-down of the carrying amount of a potentially impaired asset is required, the asset's carrying amount is compared to the recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is determined based on comparable recent arm's length market transactions or based on Equinor's estimate of the price that would be received for the asset in an orderly transaction between market participants. Such fair value estimates are mainly based on discounted cash flow models, using assumed market participants' assumptions, but may also reflect market multiples observed from comparable market transactions or independent third-party valuations. Value in use is determined using a discounted cash flow model. The estimated future cash flows applied in the value in use are based on reasonable and supportable assumptions and represent management's best estimates of the range of economic conditions that will exist over the remaining useful life of the assets, as set down in the Equinor group's most recently approved long-term forecasts. Updates of assumptions and economic conditions in establishing the long-term forecasts are reviewed by management on a regular basis and updated at least annually. See note 11 Property, plant and equipment for a presentation of the most recently updated commodity price assumptions. For assets and CGUs with an expected useful life or timeline for production of expected oil and gas reserves extending beyond 5 years, the forecasts reflect expected production volumes, and the related cash flows include project or asset specific estimates reflecting the relevant period. Such estimates are established on the basis of Equinor group's principles and group assumptions and are consistently applied.

In performing a value-in-use-based impairment test, the estimated future cash flows are adjusted for risks specific to the asset and discounted using a real post-tax discount rate which is based on Equinor's post-tax weighted average cost of capital (WACC). The use of post-tax discount rates in determining value in use does not result in a materially different determination of the need for, or the amount of, impairment that would be required if pre-tax discount rates had been used.

Unproved oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset or CGU to which the unproved properties belong may exceed its recoverable amount, and at least once a year. Exploratory wells that have found reserves, but where classification of those reserves as proved depends on whether major capital expenditure can be justified or where the economic viability of that major capital expenditure depends on the successful completion of further exploration work, will remain capitalised during the evaluation phase for the exploratory finds. Thereafter it will be considered a trigger for impairment evaluation of the well if no development decision is planned for in the near future and there are no firm plans for future drilling in the licence.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer be relevant or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and reversals of impairment losses are presented in the statement of income as Exploration expenses or Depreciation, amortisation and net impairment losses, on the basis of their nature as either exploration assets (intangible exploration assets) or development and producing assets (property, plant and equipment and other intangible assets), respectively.

Impairment of goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU, or group of units, to which the goodwill relates. Where the recoverable amount of the CGU, or group of units, is less than the carrying amount, an impairment loss is recognised. When impairment testing goodwill originally recognised as an offsetting item to the computed deferred tax provision in a post-tax transaction on the NCS, the remaining amount of the deferred tax provision will factor into the impairment evaluations. Once recognised, impairments of goodwill are not reversed in future periods, and as such, Equinor considers impaired goodwill as derecognised.

Financial liabilities

Interest-bearing loans and borrowings are generally from the parent company Equinor ASA, or from other entities in the Equinor group. These are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated including any issue costs as well as discount or premium on settlement.

Financial liabilities are presented as current if the liability is expected to be settled as part of Equinor's normal operating cycle, the liabilities are due to be settled within 12 months after the balance sheet date, Equinor does not have the right to defer settlement of the liability more than 12 months after the balance sheet date, or if the liabilities are held for the purpose of being traded. Financial liabilities are de-recognised when the contractual obligations are settled, or if they expire, are discharged or cancelled.

Dividends payable and group contributions

Dividends are reflected as Dividends payable within current liabilities. Group contributions for the year to other entities within Equinor's Norwegian tax group are reflected in the balance sheet as current liabilities within Liabilities to group companies. Under simplified IFRS, the presentation of dividends payable and group contributions payable differs from the presentation under IFRS, as it also includes dividends and group contributions payable which at the date of the balance sheet is subject to a future general assembly approval before distribution.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised under interest and other financial expenses in Net financial items.

Onerous contracts

The company recognises as provisions the net obligation under contracts defined as onerous. Contracts are deemed to be onerous if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received in relation to the contract. The provision for onerous contracts comprises the costs that relate directly to the contract, both incremental costs and an allocation of other costs that relate directly to fulfilling the contracts. A contract which forms an integral part of the operations of a cash generating unit whose assets are dedicated to that contract, and for which the economic benefits cannot be reliably separated from those of the cash generating unit, is included in impairment considerations for the applicable cash generating unit.

Asset retirement obligations

Provisions for Asset retirement obligations (ARO) are recognised when the company has an obligation (legal or constructive) to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reliable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The cost is estimated based on current regulation and technology, considering relevant risks and uncertainties. The discount rate used in the calculation of the ARO is a risk-free rate based on the applicable currency and time horizon of the underlying cash flows, adjusted for a credit premium which reflects Equinor's own credit risk. Normally an obligation arises for a new facility, such as an oil and natural gas production or transportation facility, upon construction or installation. An obligation may also arise during the period of operation of a facility through a change in legislation or through a decision to terminate operations or be based on commitments associated with the company's ongoing use of pipeline transport systems where removal obligations rest with the volume shippers. The provisions are classified under Provisions in the balance sheet.

When a provision for ARO is recognised, a corresponding amount is recognised to increase the related property, plant and equipment and is subsequently depreciated as part of the costs of the facility or item of property, plant and equipment. Any change in the present value of the estimated expenditures is reflected as an adjustment to the provision and the corresponding property, plant and equipment. When a decrease in the ARO provision related to a producing asset exceeds the carrying amount of the asset, the excess is recognised as a reduction of Depreciation, amortisation and net impairment losses in the Statement of income. When an asset has reached the end

of its useful life, all subsequent changes to the ARO provision are recognised as they occur in Operating expenses in the Statement of income. Removal provisions associated with shipping of volumes through third party transport systems are expensed as incurred.

Use of estimates

The preparation of the financial statements requires that management makes estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. The estimates are prepared based on tailor-made models, while the assumptions on which the estimates are based rely on historical experience, external sources of information and various other factors that management assesses to be reasonable under the current conditions and circumstances. These estimates and assumptions form the basis of making the judgements about carrying values of assets and liabilities when these are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis considering the current and expected future set of conditions.

The nature of Equinor Energy AS' operations, and the many countries in which the company's subsidiaries operates, is subject to changing economic, regulatory and political conditions. Equinor Energy AS does not believe it is vulnerable to the risk of a near-term severe impact as a result of any concentration of its activities.

The effects of the initiatives to limit climate changes and the potential impact of the energy transition are relevant components of some of the economic assumptions in our estimations of future cash flow, including for example commodities prices. The results the development of such initiatives may have in the future, and the degree Equinor operations will be affected by them are a source of uncertainty. The assumptions may change which could materialize in different outcomes from the current projected scenarios. This could result in significant changes to accounting estimates, such as economic useful life (affects depreciation period and timing of asset retirement obligations) and value-in-use calculations (affects impairment assessments). Equinor is transitioning towards becoming a broad energy company, ambitious to be a leading company in the energy transition needed to change the global energy mix for the world to reach the climate targets set out in the Paris Agreement, and has the ambition to become a net-zero energy company by 2050. Estimating global energy demand towards 2050 is an extremely difficult task, assessing the future development in supply and demand, technology change, taxation, tax on emissions, production limits and other important factors, and Equinor's long-term perspectives must be based on scenarios that span these outcomes, building on different plausible combinations of assumptions for where global energy markets may develop. These different scenarios are continually used as a backdrop when considering accounting estimates. Equinor's commodity price assumptions that are used for value-in-use impairment testing are set in accordance with accounting regulations that require such estimates to be based on management's best estimate of the development of relevant current circumstances and the likely future development of such circumstances. The best estimate price-set is currently not equal to a price-set in accordance with the achievements of the goals in the Paris Agreement. A future change in the trajectory of how the world acts with regards to implementing actions in accordance with a net-zero energy environment, supporting the goals in the Paris Agreement, could hence have a negative impact on the valuation of Equinor's oil and gas assets. See note 11 Property, plant and equipment for an impairment sensitivity based on a price set considered in alignment with the goals in the Paris Agreement.

During 2020, the Covid-19 pandemic has slowed economic growth and had dramatic consequences for energy demand, particularly mobility fuels. The collapse in commodity prices seen in the first half of 2020, though followed by a partial rebound in the second half, significantly impacted the energy industry and Equinor by an unprecedented decrease in short term demand and increased uncertainty with regards to the phase of recovery and future oil and gas demand. The increasing momentum and commitment towards a transition into a low carbon future aided by technological advances and decreasing cost of renewable energy has also increased the uncertainty in estimating the future development in supply and demand. When setting Equinor's estimates for global supply, demand and commodity prices, management has factored in the effects of global roll-out of vaccines during 2021, allowing an accelerated re-opening of the economy through the year. Even though we expect the cyclical economic upturn to continue into 2022 where GDP growth rates should normalise from the effects of the pandemic, we expect the global oil demand never to reach pre-pandemic levels. We acknowledge that the speed and effect of global vaccination as well as the scope of monetary and fiscal governmental stimuli will affect the economy, the outlook is highly uncertain and dominated by downside risks such as virus infection flare-ups, high unemployment suppressing consumption and increasing public and private debt levels, and as such the full resulting operational and economic impact for Equinor cannot be fully ascertained at this time.

Oil and gas reserves estimates are complex and based on a high degree of professional judgement involving geological and engineering assessments of in-place hydrocarbon volumes, the production, historical recovery and processing yield factors and installed plant operating capacity. Recoverable oil and gas quantities are always uncertain. The reliability of these estimates at any point in time depends on both the quality and availability of the technical and economic data and the efficiency of extracting and processing the hydrocarbons. Reserves quantities are, by definition, discovered, remaining, recoverable and economic. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Unless evidence indicates that renewal is reasonably certain, estimates of economically producible reserves only reflect the period before the contracts providing the right to operate expire. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence within a reasonable time. Proved oil and gas reserves have been estimated by internal experts on the basis of industry standards and are governed by the oil and gas rules and requirements in the Securities Exchange Commission (SEC) regulations S-K and S-X, and the Financial Accounting Standards Board (FASB) requirements for supplemental oil and gas disclosures. Changes in proved oil and gas reserves may impact the carrying amounts

of oil and gas producing assets, as changes in the proved reserves, for instance as a result of changes in prices, will impact the unit of production rates used for depreciation and amortisation.

Expected oil and gas reserves are the estimated remaining, commercially recoverable quantities, based on Equinor's judgement of future economic conditions, from projects in operation or decided for development. Recoverable oil and gas quantities are always uncertain. As per Equinor's internal guidelines, expected reserves are defined as the 'forward looking mean reserves' when based on a stochastic prediction approach. In some cases, a deterministic prediction method is used, in which case the expected reserves is the deterministic base case or best estimate. Expected reserves are therefore typically larger than proved reserves as defined by the SEC, which are high confidence estimates with at least a 90% probability of recovery when a probabilistic approach is used. Changes in the expected oil and gas reserves, for instance as a result of changes in prices, may materially impact the amounts of asset retirement obligations, as a consequence of timing of the removal activities, and value-in-use calculations for oil and gas assets used for impairment testing.

Equinor has significant investments in property, plant and equipment and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, requiring it's carrying amount to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Where recoverable amounts are based on estimated future cash flows, reflecting Equinor's, market participants' and other external sources' assumptions about the future and discounted to their present value, the estimates involve complexity. Impairment testing requires long-term assumptions to be made concerning a number of economic factors such as future market prices, refinery margins, foreign currency exchange rates and future output, discount rates, impact of the timing of tax incentive regulations among others, in order to establish relevant future cash flows. Long-term assumptions for major economic factors are made at a group level, and there is a high degree of reasoned judgement involved in establishing these assumptions, in determining other relevant factors such as forward price curves, in estimating production outputs and in determining the ultimate terminal value of an asset. The key assumptions used will bear the risk of change based on the inherent volatile nature of macro-economic factors (such as the continued development of the Covid-19 pandemic and the unknown speed of the new energy transition) and uncertainty in asset specific factors such as reserve estimates and operational decisions impacting the production profile or activity levels.

Equinor has significant obligations to decommission and remove offshore installations at the end of the production period. Establishing the appropriate estimates for such obligations involve the application of judgement and involve an inherent risk of significant adjustments. The costs of decommissioning and removal activities require revisions due to changes in current regulations and technology while considering relevant risks and uncertainties. Most of the removal activities are many years into the future, and the removal technology and costs are constantly changing. The speed of the transition to new renewable energy may also influence the timing of the production period, hence the timing of the removal activities. The estimates include assumptions of norms, rates and time required which can vary considerably depending on the assumed removal complexity. Moreover, changes in the discount rate and foreign currency exchange rates may impact the estimates significantly. As a result, the initial recognition of the liability and the capitalised cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgement.

3 Acquisitions and disposals

2020

No significant acquisitions or disposals in 2020.

2019

Acquisition of interest in Johan Sverdrup field

In the third quarter of 2019, Equinor closed the acquisition of 2.6% interest in Johan Sverdrup field. The acquired interest has been reflected in accordance with the principles of IFRS 3 Business Combinations. The acquisition resulted in increased assets of USD 1,580 million, including goodwill of USD 612 million, increased deferred tax of USD 612 million and other changes of USD 13 million. The acquisition was tax-exempted.

Swap of interests in the Norwegian Sea and the North Sea region of the Norwegian continental shelf

In the second quarter of 2019, Equinor and Faroe Petroleum closed a swap transaction in the Norwegian Sea and the North Sea region of the Norwegian continental shelf (NCS) with no cash effect at the effective date. The effective date of the swap transaction is 1 January 2019. The assets and liabilities related to the acquired interests have been reflected in accordance with the principles of IFRS 3 Business Combinations. The acquisition resulted in increased assets of USD 280 million, including goodwill of USD 82 million, and increased liabilities of USD 97 million. In the third quarter of 2019 the purchase price allocation was finalised with no significant change compared to initial recognition. A gain of USD 137 million on the divested interests has been presented in the line item Other income in the statement of income. The transactions were tax-exempted.

4 Financial risk management and measurement of financial instruments

General information relevant to financial risks

Equinor Energy AS activities expose the company to market risk, liquidity risk and credit risk. Financial risks are managed at Equinor group level. Equinor's approach to risk management includes assessing and managing risk in activities using a holistic risk approach by considering the correlation between the most important market risks and the natural hedges inherent in Equinor's portfolio, with focus on achieving the highest risk adjusted returns for the group within the given mandate.

Market risk

Equinor Energy AS operates in the worldwide crude oil and natural gas market and is exposed to market risks including fluctuations in hydrocarbon prices, foreign currency rates and interest rates that can affect the revenues and costs of operating, investing and financing. Equinor has guidelines for entering into derivative contracts to manage its commodity price, foreign currency rate, and interest rate risk, which encompasses Equinor Energy AS most significant market risks.

Commodity price risk

Commodity price risk represents Equinor Energy AS most important market risk. Equinor Energy AS has intercompany commodity based derivative contracts with Equinor ASA in order to manage the short-term commodity price risk, mainly related to gas prices. The commodity based derivative contracts consist of over-the-counter forward contracts, futures, market swaps and options related to natural gas. The term for natural gas derivatives is usually three years or less. Equinor's bilateral gas sales portfolio is exposed to various price indices with a combination of gas price markers.

Currency risk

Equinor Energy AS operating results and cash flows are affected by foreign currency fluctuations of the most significant currencies, the United States Dollar (USD) and the Euro (EUR), against the Norwegian Krone (NOK). The company's cash inflows are largely denominated in or driven by USD while cash outflows, such as operating expenses and taxes payable, are to a large extent denominated in NOK. Foreign currency exchange risk is managed at corporate level in accordance with policies and mandates.

Interest rate risk

Equinor Energy AS has liabilities with both variable and fixed interest rates. The liabilities with floating interest rate condition expose the company to cash flow risk caused by market interest rate fluctuations.

Liquidity risk

Liquidity risk is the risk that Equinor Energy AS will not be able to meet obligations of financial liabilities when they become due. The purpose of liquidity management is to make certain that Equinor Energy AS has sufficient funds available at all times to cover its financial obligations.

Equinor manages liquidity and funding at the corporate level, ensuring adequate liquidity to cover Equinor's operational requirements. Equinor has a high focus and attention on credit and liquidity risk. In order to secure necessary financial flexibility, which includes meeting the financial obligations, Equinor maintains a conservative liquidity management policy. To identify future long-term financing needs, Equinor carries out three-year cash flow forecasts on a regular basis.

Credit risk

Key elements in Equinor's credit risk management is identification and assignment of credit rating as well as exposure limits. Equinor uses risk mitigation tools to reduce or control credit risk both on a counterparty and portfolio level. The main tools include bank and parental guarantees, prepayments and cash collateral.

Credit risk is the risk that Equinor Energy AS customers or counterparties will cause Equinor Energy AS financial loss by failing to honour their obligations. Credit risk arises from credit exposures with customer accounts receivables as well as from derivative financial instruments. Equinor Energy AS is mainly exposed to credit risk related intercompany transactions and the back-to-back contracts with Equinor ASA. See Equinor Energy note 5 Revenues for further information.

Measurement of financial instruments

Equinor Energy AS derivative financial instruments are measured at fair value. All other financial instruments are measured at amortised cost and mainly consist of group liabilities and receivables, trade and other payables, and trade and other receivables. Amortised cost is a reasonable approximate of fair value, except for non-current group financial liabilities.

Fair value measurement of derivative financial instruments

The fair value of certain earn-out agreements contracts is determined by the use of valuation techniques with price inputs from observable market transactions as well as internally generated price assumptions and volume profiles. The discount rate used in the valuation is a risk-free rate based on the applicable currency and time horizon of the underlying cash flows adjusted for a credit premium to reflect either Equinor's credit premium, if the value is a liability, or an estimated counterparty credit premium if the value is an asset. In addition, a risk premium for risk elements not adjusted for in the cash flow may be included when applicable. The fair values of

these assets derivative financial instruments have been classified in their entirety in the third level in the fair value hierarchy within current derivative financial instruments and non-current derivative financial instruments.

During 2020 the derivative financial instruments within third level has a net decrease in the fair value of USD 11 million. USD 12 million is recognised in the statement of income related to changes in fair value. Related to the same earn-out agreements, USD 28 million has been fully realised as the underlying volumes have been delivered during 2020.

Commodity price risk

The table below contains the commodity price risk sensitivities of Equinor Energy AS derivative financial instruments including the back-to-back derivative contracts with Equinor ASA. See note 2 Significant accounting policies for further information regarding derivative financial instruments.

Price risk sensitivities at the end of 2020 and 2019 at 30%, are assumed to represent a reasonably possible change based on the duration of the derivatives.

(in USD million)	2020		2019	
	- 30% sensitivity	+ 30% sensitivity	- 30% sensitivity	+ 30% sensitivity
At 31 December				
Natural gas net gains/(losses)	108	(108)	(104)	105

5 Revenues

(in USD million)	Full year	
	2020	2019
Revenues third party	5,933	9,386
Intercompany revenues	8,511	11,113
Revenues	14,444	20,500

Equinor Energy AS sells most of its gas volumes to external customers through the parent company Equinor ASA. A significant portion of these sales are based on back-to-back contracts between Equinor Energy AS and Equinor ASA whereby Equinor Energy AS carries all risks related to the sale. These back-to-back sales contracts are considered as revenues third party. The receivables from these sales are included in the balance sheet as receivables from group companies. Equinor Energy AS sells most of its liquids volumes to Equinor ASA whereby Equinor ASA takes over all risks related to the external sale of these volumes. These sales are considered intercompany sales in Equinor Energy AS. The receivables from these sales are included in the balance sheet as receivables from group companies.

6 Remuneration

The company has no employees. No salary or other remuneration has been paid to the managing director in 2020 or 2019. The managing director is employed and paid by Equinor ASA.

No compensation was paid to the board of directors in 2020 or 2019.

7 Auditor's remuneration

Auditor's remuneration

(in USD million, excluding VAT)	Full year 2020	2019
Audit fee Ernst & Young (principal accountant from 2019)	0.3	0.2
Audit fee KPMG (principal accountant 2018)		0.1
Audit related fee Ernst & Young (principal accountant from 2019)	0.5	0.3
Audit related fee KPMG (principal accountant 2018)		0.9
Total remuneration	0.8	1.5

In addition to the figures above, audit fees and audit related fees to the external auditor related to Equinor Energy AS operated licences amounted to USD 0.5 million and USD 0.5 million in 2020 and 2019, respectively.

There are no fees incurred related to tax advice or other services.

8 Research and development expenditures

Equinor Energy AS has Research and development (R&D) activities within exploration, subsurface, drilling and well, facilities, low carbon and renewables. Our R&D contributes to maximizing and developing long-term value from Equinor's assets.

R&D expenditures amounted to USD 203 million and USD 229 million in 2020 and 2019, respectively. R&D expenditures are partly financed by partners of Equinor Energy AS operated licences. Equinor Energy AS share of the expenditures has been recognised in the Total operating expenses in the statement of income.

9 Financial items

(in USD million)	Full year 2020	2019
Net foreign currency exchange gains/(losses)	127	(31)
Dividends received	0	1
Interest income from group companies	73	95
Interest income current financial assets and other financial items	1	22
Interest income and other financial items	74	118
Capitalised borrowing costs	231	345
Accretion expense asset retirement obligations	(264)	(295)
Interest expense lease liabilities	(17)	(25)
Interest expense to group companies	(367)	(422)
Interest expense current financial liabilities and other finance expenses	10	(7)
Interest expenses and other finance expenses	(407)	(404)
Net financial items	(205)	(318)

10 Income taxes

Income tax

(in USD million)	Full year	
	2020	2019
Current taxes	419	6,696
Change in deferred tax	1,319	126
Income tax	1,739	6,822

As a measure to maintain activity in the oil and gas related industry during the Covid-19 pandemic, the Norwegian government on 19 June 2020 enacted temporary targeted changes to Norway's petroleum tax system for investments incurred in 2020 and 2021 and for new projects with Plans for development and operations (PDOs) or Plans for installation and operations (PIOs) submitted to the Ministry of Oil and Energy by end of 2022 and approved prior to 1 January 2024. The changes are effective from 1 January 2020 and provide companies with a direct tax deduction in the special petroleum tax (56% tax rate) instead of tax depreciation over six years. In addition, the tax uplift benefit, which has increased from 20.8% to 24%, will be recognised over one year instead of four years. Tax depreciation towards the ordinary offshore corporate tax (22% rate) will continue with a six-year depreciation profile. The tax value of any total taxable losses and unused tax uplift benefit incurred in 2020 and 2021, may be refunded from the authorities.

Reconciliation of Norwegian statutory tax rate to effective tax rate

(in USD million)	Full year	
	2020	2019
Income/(loss) before tax	(1,467)	6,654
Calculated income taxes at:		
Statutory tax rate ¹⁾	323	(1,464)
Norwegian petroleum tax at statutory tax rate ²⁾	821	(3,726)
Tax effect of:		
Uplift ³⁾	1,006	632
Income not subject to Norwegian petroleum tax rate	24	(113)
Permanent differences divestments on the NCS	(8)	119
Tax effect of permanent differences related to equity accounted investments	(4,108)	(2,294)
Permanent differences other	10	(1)
Income tax prior years	217	73
Other	(24)	(46)
Income tax	(1,739)	(6,822)
Effective tax rate	>(100%)	>100%

1) Statutory tax rate is 22% for 2020 and 2019.

2) Norwegian petroleum tax at statutory tax rate is 56% for 2020 and 2019.

3) When computing the petroleum tax of 56% on income from the Norwegian continental shelf, an additional tax-free allowance, or uplift, is granted on the basis of the original capitalised cost of offshore production installations. Normally, a 5.2% uplift may be deducted from taxable income for a period of four years starting in the year in which the capital expenditure is incurred. For 2020 temporary rules allow direct deduction of the whole uplift at a rate of 24% in the year the capital expenditure is incurred. For investments made in 2019 the uplift is calculated at a rate of 5.2% per year, while the rate is 5.3% per year for investments made in 2018 and 5.4% per year for investments made in 2017. Transitional rules apply to investments from 5 May 2013 covered by among others Plans for development and operation (PDOs) or Plans for installation and operation (PIOs) submitted to the Ministry of Oil and Energy prior to 5 May 2013. For these investments the rate is 7.5% per year. Unused uplift may be carried forward indefinitely. At year end 2020 and 2019, unrecognised uplift credits amounted to USD 836 million and USD 1,678 million, respectively.

Significant components of deferred tax assets and liabilities:

(in USD million)	At 31 December	
	2020	2019
Deferred tax assets		
Other items	457	298
Asset retirement obligations	9,606	7,686
Lease liabilities	1,263	1,308
Total deferred tax assets	11,326	9,292
Deferred tax liabilities		
Derivatives	224	112
Property, plant and equipment	20,058	16,469
Capitalised exploration expenditures and capitalised interest	1,828	1,766
Total deferred tax liabilities	22,110	18,347
Net deferred tax liabilities	10,783	9,055

Deferred tax liabilities

(in USD million)	2020	2019
Deferred income tax liability at 1 January	9,055	8,422
Charged to the statement of income	1,319	126
Foreign currency translation effects, acquisition and divestment	409	507
Deferred income tax liabilities at 31 December	10,783	9,055

Current tax payable

(in USD million)	2020	2019
Tax payable at 1 January	3,210	4,323
Current tax payable	419	6,696
Tax settlement previous years	(2,314)	(3,696)
Tax installment current year	(206)	(3,970)
Other	(340)	(143)
Tax payable at 31 December	770	3,210

11 Property, plant and equipment

(in USD million)	Machinery, equipment and transportation equipment	Production plants and oil and gas assets	Refining and manufacturing plants	Buildings and land	Assets under development	Right of use assets ⁴⁾	Total
Cost at 31 December 2019	204	101,142	498	88	6,895	1,854	110,681
Additions and transfers	5	4,522	15	9	1,904	156	6,611
Disposals at cost	0	(20)	0	0	0	0	(20)
Foreign currency translation effects	6	3,405	16	3	424	58	3,913
Cost at 31 December 2020	215	109,050	529	100	9,223	2,068	121,185
Accumulated depreciation and impairment losses at 31 December 2019	(185)	(73,152)	(329)	(3)	(807)	(187)	(74,662)
Depreciation	(6)	(4,458)	(22)	(1)	0	(190)	(4,676)
Impairment losses and transfers	(0)	(1,212)	(1)	0	(234)	0	(1,448)
Accumulated depreciation and impairment on disposed assets	0	14	0	0	0	0	14
Foreign currency translation effects	(6)	(2,704)	(12)	(0)	(50)	(25)	(2,797)
Accumulated depreciation and impairment losses at 31 December 2020	(196)	(81,512)	(365)	(4)	(1,091)	(401)	(83,569)
Carrying amount at 31 December 2020	19	27,538	164	96	8,132	1,666	37,616
Estimated useful lives (years)	3 - 10	UoP ¹⁾	15 - 20	20 - 33 ²⁾		1 - 16 ³⁾	

1) Depreciation according to unit of production method (UoP), see note 2 Significant accounting policies.

2) Land is not depreciated.

3) Depreciation linearly over contract period.

4) See note 19 Leases.

Impairment

In 2020 impairments of USD 1,448 million were recognised mainly due to reduced price assumptions, expected reduced volumes to a processing plant, reduced reserves and increased cost estimates. In 2019 net impairment of USD 1,119 million were recognised.

For impairment purposes, the asset's carrying amount is compared to its recoverable amount, defined as the higher of fair value less cost of disposal (FVL COD) and estimated value in use (VIU). The table below shows the method used, the net impairment loss (reversal) and the recoverable amounts for assets tested for impairment.

(in USD million)	At 31 December 2020		At 31 December 2019	
	Carrying amount after impairment ¹⁾	Net impairment loss (reversal)	Carrying amount after impairment ¹⁾	Net impairment loss (reversal)
VIU	7,042	1,220	4,406	1,119
FVL COD	668	228	0	0

1) Carrying amount relates to assets impaired/reversed.

The recoverable amounts of assets tested for impairment were mainly based on Value in Use (VIU) estimates or net present value estimates using assumed market participant assumptions based on internal forecasts on costs, production profiles and commodity prices. The base discount rate for VIU calculations is 5.0% (2019: 6%) real after tax. The discount rate is derived from Equinor's weighted average cost of capital. A derived pre-tax discount rate is in the range of 8-15% depending on asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life.

Accounting assumptions

Management's future commodity price assumptions and foreign currency assumptions are used for value-in-use impairment testing. The same assumptions are also used for evaluating investment opportunities, together with other relevant criteria, including among others robustness targets (value creation in lower commodity price scenarios). While there are inherent uncertainties in the assumptions, the commodity price assumptions as well as foreign currency assumptions reflect management's best estimate of the price and foreign currency development over the life of the Equinor Group's assets based on its view of relevant current circumstances and the likely future development of such circumstances, including energy demand development, energy and climate change policies as well as the speed of the energy transition, population and economic growth, geopolitical risks, technology and cost development, and other factors. Management's best estimate also takes into consideration a range of external forecasts.

Following the ongoing Covid-19 pandemic, Equinor has performed a thorough and broad analysis and gained more insight into the expected development in drivers for the different commodity markets and exchange rates in which Equinor operates. Significant uncertainty continues to exist regarding future commodity price development due to the potential long-term impact on demand resulting from the ongoing Covid-19 pandemic and the measures taken to contain it, energy investments in the transition to a lower carbon economy and future supply actions by OPEC+ and other factors. The management's analysis of the expected development in drivers for the different commodity markets and exchange rates resulted in changes in the long-term price assumptions as from the third quarter of 2020. The following price assumptions have been the basis for the impairment calculations.

All commodity prices are on a real 2020 basis, and comparables as per year-end 2019 and until the third quarter of 2020 are given in brackets.

In 2025, the oil price assumption is 65 USD/bbl (78 USD/bbl), with a further increase towards 2030. Beyond 2030, we expect a gradual decline with an estimate of 64 USD/bbl in 2040 (82 USD/bbl), which approximates the average price level for the period 2021-2050. In 2050, the oil prices are expected to be below 60 USD/bbl.

For natural gas in the UK (NBP), some volatility is expected, where the trend is a gradual increase in prices from today's current prices up to 6.5 USD/mmBtu in 2030 (7.7 USD/mmBtu). From 2030, we expect prices at levels sufficient to incentivise the next LNG investment cycle and a flatter price-curve, with the price gradually increasing to 7.8 USD/mmBtu close to 2040 (7.7 USD/mmBtu). Beyond 2040, a declining price trend is foreseen as the energy transition is expected to impact the demand side. For 2050, the price has been set at the pre-2035 level. Henry Hub is expected to be 3.3 USD/mmBtu in 2030 (3.7 USD/mmBtu) and gradually increasing to 3.7 USD/mmBtu in 2040 (3.7 USD/mmBtu) before gradually declining through the 2040s.

Equinor has performed analysis of the foreign currency exchange rates between NOK and other currencies, which suggests that a return to a previously assumed long-term equilibrium is less likely. This conclusion is supported by the historical 5-year average and spot prices in the currency market, as well as an expected lower oil price and increased market uncertainty. Equinor has therefore implemented new long-term exchange rates from 2023 onwards. The NOK/USD rate has been revised to 8.5 (previously 7.0), while the NOK/EUR rate has been revised to 10.0 (from previously 9.0).

During the first nine months of 2020 there was a significant drop in the risk-free interest rates. The stock market recovery after the initial Covid-19 impact in March indicated a lower market risk premium. The low interest rates combined with lack of good alternative investment opportunities, channelled more funds towards the equity market resulting in investors accepting lower return on investments, resulting in a downward shift in the estimated equity risk premium. Taking this into account, Equinor adjusted the Weighted Average Cost of Capital (WACC) for accounting purposes, real post-tax, down from 6% to 5%.

Sensitivities

Commodity prices have historically been volatile. Significant downward adjustments of Equinor's commodity price assumptions would result in impairment losses on certain producing and development assets in Equinor's portfolio including intangible assets that are subject to impairment assessment under IAS36, while an opposite adjustment could lead to impairment-reversals. If a decline in commodity price forecasts over the lifetime of the assets were 30%, considered to represent a reasonably possible change, the impairment amount to be recognised could illustratively be in the region of USD 3 billion before tax effects.

A future change in the trajectory of how the world acts with regards to implementing actions in accordance with the goals in the Paris agreement could, depending on the detailed characteristics of such a trajectory, have a negative impact on the valuation of Equinor's oil and gas assets. A calculation of a possible effect of using the prices in a sustainable development scenario as estimated by the International Energy Agency (IEA) could result in an impairment of around USD 0.5-1 billion before tax.

These illustrative impairment sensitivities, both based on a simplified method, assumes no changes to input factors other than prices; however, a price reduction of 30% or those representing the Sustainable Development Scenario is likely to result in changes in business plans as well as other factors used when estimating an asset's recoverable amount. These associated changes reduce the stand-alone impact on commodity price sensitivity. Changes in such input factors would likely include a reduction in the cost level in the oil and gas industry as well as offsetting foreign currency effects, both of which have historically occurred following significant changes in commodity prices. The illustrative sensitivities are therefore not considered to represent a best estimate of an expected impairment impact, nor an estimated impact on revenues or operating income in such a scenario. In comparison, following the amended assumptions described

above in the accounting assumptions section and the decline in commodity prices, the impairment impact recognised is considerably lower. A significant and prolonged reduction in oil and gas prices would also result in mitigating actions by Equinor and its licence partners, as a reduction of oil and gas prices would impact drilling plans and production profiles for new and existing assets. Quantifying such impacts is considered impracticable, as it requires detailed technical, geological and economical evaluations based on hypothetical scenarios and not based on existing business or development plans.

12 Intangible assets

(in USD million)	Exploration expenses	Acquisition costs - oil and gas prospects	Goodwill	Other	Total
Cost at 31 December 2019	666	157	703	28	1,553
Additions	144	(0)	(0)	10	154
Disposals at cost	(7)	(0)	0	0	(7)
Transfers	(16)	0	0	0	(16)
Expensed exploration expenditures previously capitalised	(83)	(8)	0	0	(91)
Impairment of goodwill	0	0	(42)	0	(42)
Foreign currency translation effects	26	4	18	2	50
Cost at 31 December 2020	730	152	679	40	1,601
Accumulated amortisation and impairment losses at 31 December 2019				(11)	(11)
Amortisation and impairments for the year				(9)	(9)
Foreign currency translation effects				(1)	(1)
Accumulated amortisation and impairment losses at 31 December 2020				(21)	(21)
Carrying amount at 31 December 2020	730	152	679	18	1,579

The table below shows the aging of capitalised exploration expenditures:

(in USD million)	2020	2019
Less than one year	189	238
Between one and five years	324	230
More than five years	217	198
Total capitalised exploration expenditures	730	666

The table below shows the components of the exploration expenses:

(in USD million)	Full year	
	2020	2019
Exploration expenditures	470	617
Expensed exploration expenditures previously capitalised	91	59
Capitalised exploration	(138)	(198)
Exploration expenses	423	478

13 Investments in subsidiaries and other equity accounted companies

(in USD million)	2020	2019
Investments at 1 January	22,106	23,371
Net income/(loss) from subsidiaries and other equity accounted companies	(5,267)	(2,941)
Increase/(decrease) in paid-in capital	1,288	2,090
Distributions	(386)	(477)
Divestments	(10)	0
Foreign currency translation effects	132	63
Investments at 31 December	17,863	22,106

The closing balance of investments at 31 December 2020 of USD 17,863 million consists of investments in subsidiaries amounting to USD 17,857 million and investments in other equity accounted companies amounting to USD 6 million. In 2019, the amounts were USD 22,100 million and USD 6 million, respectively.

The translation adjustments relate to foreign currency translation effects from subsidiaries with functional currencies other than USD. In addition, there are also foreign currency exchange rate effects caused by the difference in Equinor Energy AS functional currency (NOK) and presentation currency (USD).

In 2020, net income from subsidiaries and other equity accounted companies was impacted by impairments related to property, plant and equipment and exploration assets of USD 3,308 million after tax mainly due to reduced price assumptions, negative reserve revisions and increased cost estimates.

In 2019, net income from subsidiaries and other equity accounted companies was impacted by impairments related to property, plant and equipment and exploration assets of USD 2,822 million after tax. The impairments were caused by reduced long-term price assumptions, reduced reserve estimates and reduced fair value of one asset.

The acquisition cost for investments in subsidiaries and other equity accounted companies are USD 41,670 million in 2020 and USD 39,171 million in 2019.

The following table shows the most significant subsidiaries directly held by Equinor Energy AS at 31 December 2020:

Name	Ownership share in %	Country of incorporation
Equinor Angola AS	100	Norway
Equinor Dezassete AS	100	Norway
Equinor Energy International AS ¹⁾	100	Norway
Equinor Global New Ventures 2 AS	100	Norway
Equinor Holding Netherlands BV	100	Netherlands
Equinor International Well Response Company AS	100	Norway
Equinor Murzuq AS	100	Norway
Equinor US Holdings Inc.	100	USA

1) Equinor Energy Brazil AS has changed name to Equinor Energy International AS.

14 Financial assets and liabilities

Non-current liabilities to group companies:

(in USD million)	At 31 December	
	2020	2019
Interest bearing liabilities to group companies	12,306	11,959
Non-interest bearing liabilities to group companies	162	17
Liabilities to group companies	12,468	11,976

The total amount of credit facility given from Equinor ASA is NOK 105 billion (USD 12,305 million) at 31 December 2020 and NOK 120 billion (USD 13,667 million) at 31 December 2019. In 2020 and 2019 the facility is fully utilized. Of the total interest bearing non-current liabilities at 31 December 2020 USD 7,617 million (NOK 65 billion) is due later than five years. USD 4,687 million (NOK 40 billion) is due within the next five years.

Current receivables from subsidiaries and other equity accounted companies include positive internal bank balances of USD 3.7 billion at 31 December 2020. The corresponding amount was USD 3.7 billion at 31 December 2019.

15 Trade and other receivables

(in USD million)	At 31 December	
	2020	2019
Trade receivables	57	61
Other receivables	630	647
Trade and other receivables	687	708

Other receivables mainly consist of joint venture receivables, prepaid expenses and accruals for lifting imbalances related to Equinor Energy AS operated licences.

16 Equity and shareholders

(in USD million)	2020	2019
Shareholders' equity at 1 January	26,233	26,409
Net income/(loss)	(3,205)	(168)
Foreign currency translation effects ¹⁾	331	(13)
Group contributions ²⁾	(3,510)	2
Other	(1)	3
Shareholders' equity at 31 December	19,848	26,233

Share capital of NOK 36,172,224,000 (USD 5,529,516,612) comprised 17,424,000 shares at a nominal value of NOK 2,076. All shares are owned by Equinor ASA.

- 1) The foreign currency translation reserve as of 31 December 2020 was negative USD 3,148 million and negative USD 3,479 million as of 31 December 2019.
- 2) Includes group contribution to Equinor ASA of USD 3,514 million related to 2020.

17 Provisions and other liabilities

(in USD million)	Asset retirement obligations	Other provisions and liabilities	Total
Provisions and other liabilities at 31 December 2019	9,854	354	10,208
Non-current portion at 31 December 2019	9,797	345	10,142
Current portion at 31 December 2019	57	10	67
New or increased provisions and other liabilities	336	34	370
Change in estimates	434	2	437
Amounts charged against provisions and other liabilities	(43)	(32)	(75)
Effects of change in the discount rate	944	23	967
Accretion expenses	264	0	264
Reclassification and transfer	0	(1)	(1)
Foreign currency translation effects	526	15	541
Provisions and other liabilities at 31 December 2020	12,316	395	12,711
Non-current portion at 31 December 2020	12,260	382	12,642
Current portion at 31 December 2020	56	13	69

Expected timing of cash outflows:

(in USD million)	Asset retirement obligations	Other provisions and liabilities	Total
2021 - 2025	183	69	252
2026 - 2030	1,057	14	1,072
2031 - 2035	4,669	0	4,669
2036 - 2040	2,182	20	2,202
Thereafter	4,224	292	4,516
At 31 December 2020	12,316	395	12,711

The timing of cash outflows of asset retirement obligations depends on the expected production cease at the various facilities.

The other provisions category relates to expected payments on cancellation fees, onerous contracts and other liabilities.

For further information of methods applied and estimates required, see note 2 Significant accounting policies.

18 Trade, other payables and provisions

(in USD million)	At 31 December	
	2020	2019
Trade payables	128	144
Joint venture payables	1,529	1,835
Other non-trade payables, accrued expenses and provisions	317	371
Trade, other payables and provisions	1,974	2,350

19 Leases

Equinor Energy AS is for the most part a lessee in its lease contracts, in which it leases assets used in operational activities, such as drilling rigs, supply vessels, helicopters and land bases. The use of leases in Equinor merely serves operational purposes, rather than as a tool for financing.

Information related to lease payments and lease liabilities

(in USD million)	2020	2019
Lease liabilities at 1 January	1,677	1,760
New leases, including remeasurements and cancellations	424	387
Gross lease payments	(533)	(483)
Lease interest	39	46
Lease repayments	(495)	(437)
Foreign currency translation effects	13	(33)
Lease liabilities at 31 December	1,619	1,677
Current lease liabilities	480	479
Non-current lease liabilities	1,139	1,198

Lease expenses not included in lease liabilities

(in USD million)	2020	2019
Short-term lease expenses	180	245

Payments related to short-term leases are mainly related to drilling rigs and supply vessels, for which a significant portion of the lease costs have been included in the cost of other assets, such as rigs used in exploration or development activities. Variable lease expense and lease expense related to leases of low value assets are not significant.

Equinor recognized revenues of USD 131 million in 2020 and USD 110 million in 2019 related to lease costs recovered from licence partners related to lease contracts being recognized gross by Equinor.

Commitments relating to lease contracts which had not yet commenced at year end are included within commitments in note 20 Other Commitments, contingent liabilities and contingent assets.

Non-current lease liabilities maturity profile

(in USD million)	At 31 December	
	2020	2019
Year 2 and 3	703	639
Year 4 and 5	243	307
After 5 years	193	252
Total repayment of non-current lease liabilities	1,139	1,198

Undiscounted contractual lease payments for Equinor's lease liabilities are USD 510 million in 2021, USD 995 million within two to five years and USD 204 million after five years.

Information related to Right of use assets

(in USD million)	Drilling rigs	Vessels	Land and buildings	Other	Total
Right of use assets at 1 January 2020	858	388	295	126	1667
Additions including remeasurements	370	18	8	27	424
Depreciation ¹⁾	(264)	(92)	(35)	(66)	(458)
Foreign currency translation effects	25	3	6	(1)	33
Right of use assets at 31 December 2020	989	318	274	86	1,666

(in USD million)	Drilling rigs	Vessels	Land and buildings	Other	Total
Right of use assets at 1 January 2019	993	313	267	187	1760
Additions including remeasurements	151	164	73	(1)	387
Depreciation ¹⁾	(264)	(81)	(39)	(56)	(440)
Foreign currency translation effects	(22)	(8)	(6)	(4)	(40)
Right of use assets at 31 December 2019	858	388	295	126	1,667

1) USD 268 million in 2020 and USD 254 million in 2019 of the depreciation costs have been allocated to activities being capitalised.

The Right of use assets are included within the line item Property, plant and equipment in the balance sheet. See also note 11 Property, plant and equipment.

Equinor implemented the accounting standard IFRS 16 Leases on 1 January 2019. The accounting standard was implemented according to the retrospective method, without restatement of prior periods' reported figures. The implementation of IFRS 16 on 1 January 2019 increased the balance sheet by adding lease liabilities of USD 1.8 billion and RoU assets of USD 1.8 billion. Equinor's equity was not impacted by the implementation of IFRS 16.

20 Other commitments, contingent liabilities and contingent assets

Contractual commitments

Equinor had contractual commitments of USD 2,727 million at 31 December 2020. The contractual commitments reflect Equinor's proportional share and mainly comprise construction and acquisition of property, plant and equipment.

As a condition for being awarded offshore oil and gas exploration and production licences, participants may be committed to drill a certain number of wells. At the end of 2020, Equinor was committed to participate in 13 offshore wells, with an average ownership interest of approximately 42%. Equinor's share of estimated expenditures to drill these wells amounts to USD 199 million. Additional wells that Equinor may become committed to participating in, depending on future discoveries in certain licences, are not included in these numbers.

Other long-term commitments

Equinor Energy AS has entered into various long-term agreements for pipeline transportation as well as terminal use, processing, storage and entry/exit capacity commitments and commitments related to specific purchase agreements. The agreements ensure the rights to the capacity or volumes in question, but also impose on Equinor Energy AS the obligation to pay for the agreed-upon service or commodity, irrespectively of actual use. The contracts' terms vary, with duration of up to 2035.

Take-or-pay contracts for the purchase of commodity quantities are only included in the table below if their contractually agreed pricing is of a nature that will or may deviate from the obtainable market prices for the commodity at the time of delivery.

Obligations payable by Equinor Energy AS to entities accounted for using the equity method are included in the table below with Equinor Energy AS's full proportionate share. For assets (such as pipelines) that are included in the Equinor Energy AS accounts through joint operations or similar arrangements, and where consequently Equinor Energy AS's share of assets, liabilities, income and expenses (capacity costs) are reflected on a line-by-line basis in the financial statements, the amounts in the table include the net commitment payable by Equinor Energy AS (i.e. Equinor's proportionate share of the commitment less Equinor's ownership share in the applicable entity).

The table below includes USD 1,133 million related to the non-lease components of lease agreements reflected in the accounts according to IFRS 16, as well as leases not yet commenced. See note 19 Leases for information regarding lease related commitments.

Nominal minimum commitments at 31 December 2020:

(in USD million)	
2021	1,360
2022	1,226
2023	968
2024	779
2025	676
Thereafter	1,783
Total other long-term commitments	6,792

Guarantees

All of Equinor's Norwegian continental shelf (NCS) net assets are owned by Equinor Energy AS, and the company is co-obligor or guarantor of existing debt securities and other loan arrangements of Equinor ASA. For the portion of the debt for which it is co-obligor, Equinor Energy AS assumes and agrees to perform, jointly and severally with Equinor ASA, all payment and covenant obligations. At year-end 2020 the carrying value of debts for which Equinor Energy AS is the co-obligor and guarantor is equivalent to USD 2,178 million and USD 28,913 million, respectively.

Contingencies

Equinor has an ongoing dispute regarding the level of Research & Development cost to be allocated to the offshore tax regime. Based on a Norwegian supreme court ruling and Equinor's subsequent correspondence with the Norwegian tax authorities in 2020, the maximum exposure in this matter is estimated to approximately USD 220 million. Equinor has provided for its best estimate in the matter.

The Oil Taxation Office has challenged the internal pricing of certain products of natural gas liquids sold from Equinor Energy AS to Equinor ASA in the years 2011-2019. This dispute is partially settled for some of the liquids, but for other liquids the dispute is ongoing. For one of the products, Equinor has filed a writ of summons to Oslo District Court related to the income years 2012-2014, and these proceedings are scheduled in March 2021. The total maximum exposure regarding the gas liquid matters is estimated to be approximately USD 100 million. Equinor has provided for its best estimate in the matter.

During the normal course of its business Equinor Energy AS is involved in legal proceedings, and several other unresolved claims are currently outstanding. The ultimate liability or asset in respect of such litigation and claims cannot be determined at this time. Equinor Energy AS has provided in its financial statements for probable liabilities related to litigation and claims based on the company's best judgment. Equinor Energy AS does not expect that its financial position, results of operations or cash flows will be materially affected by the resolution of these legal proceedings.

21 Related parties

The Norwegian State is the majority shareholder of Equinor ASA and also holds major investments in other Norwegian entities. Equinor ASA is the parent company of Equinor Energy AS. This ownership structure means that Equinor Energy AS participates in transactions with many parties that are under a common ownership structure and therefore meet the definition of a related party.

Revenue transactions with related parties are presented in note 5 Revenues. Total intercompany revenues amounted to USD 8,511 million and USD 11,113 million in 2020 and 2019, respectively. The major part of intercompany revenues is attributed to Equinor ASA, USD 8,430 million and USD 10,963 million in 2020 and 2019, respectively.

Equinor Energy AS purchases natural gas and pipeline transport on a back-to-back basis from Equinor ASA. Similarly, Equinor ASA enters into certain financial contracts, also on a back-to-back basis with Equinor Energy AS. Equinor Energy AS carries all the risks related to these transactions and they are therefore presented as third party purchases, operating expenses and financial instruments in Equinor Energy AS financial statements.

Expenses incurred on behalf of Equinor Energy AS are accumulated in cost pools in Equinor ASA and other group companies. Such expenses are allocated to Equinor Energy AS and to licences where Equinor Energy AS is operator. Expenses allocated from group companies amounted to USD 4,880 million and USD 3,877 million in 2020 and 2019, respectively. The major part of these expenses is allocated from Equinor ASA, USD 4,681 million and USD 3,826 million in 2020 and 2019, respectively. Equinor Energy AS share of these expenses is reflected in the statement of income and the remaining part is recharged to the other partners in the licences. Equinor Energy AS does not have any employees but purchases administrative services from Equinor ASA. The major part of the allocation is related to such personnel expenses from Equinor ASA, which is charged to Equinor Energy AS at cost on hours incurred basis.

Expenses related to services allocated from Equinor Energy AS to group companies amounted to USD 132 million and USD 135 million in 2020 and 2019, respectively.

Finance transactions with group companies are presented in note 9 Financial items.

Non-current and current liabilities to group companies are included in note 14 Financial assets and liabilities.

22 Reserves (unaudited)

The company's proved oil and gas reserves have been estimated by its parent company's experts in accordance with industry standards under the requirements of the US Securities and Exchange Commission. At year-end 2020, the company's estimated proved reserves amounted to 605 million Sm³ oil equivalents. At year-end 2019, estimated proved reserves amounted to 679 million Sm³ oil equivalents.

Proved reserves are expected to be produced in the period from 2021 to 2045.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Unless evidence indicates that renewal is reasonably certain, estimates of economically producible reserves only reflect the period before the contracts providing the right to operate expire. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence within a reasonable time.

23 Subsequent events

On 16 November 2020, Equinor communicated a new organisational corporate structure, which will come into effect on 1 June 2021. The main change is that the operating segment Development & Production Brazil will be merged into the operating segment Exploration & Production International. In addition, the operating segment Exploration will be divided and merged into Exploration & Production Norway and Exploration & Production International. Global Strategy & Business development will be divided and merged into the functions for Chief Financial Officer and Safety, Security and Sustainability. The operating segment Technology, Projects & Drilling will be split into Technology, Digital & Innovation and Projects, Drilling & Procurement. The current organisational structure will remain in place until the planned implementation takes effect. The new organisational corporate structure will not imply any changes in the reportable segments.

On 8 January 2021, The Norwegian Government announced a new climate action plan. One proposed measure to reduce CO₂ emissions is to increase the CO₂ tax on offshore oil and gas production gradually and with full effect from 2030. The plan also proposes increased offshore methane tax. Compared to Equinor's estimates at 31 December 2020, it is expected that the cost increase for Equinor for the year 2030 will be approximately USD 0.4 billion pre-tax. This is not expected to significantly impact impairment assessments in E&P Norway as of the first quarter of 2021. The climate action plan is expected to be approved by the Parliament in the spring of 2021.

STAVANGER, 26 MARCH 2021

THE BOARD OF DIRECTORS OF EQUINOR ENERGY AS

/s/ SVEIN SKEIE
CHAIR

/s/ KJELL BYBERG
MANAGING DIRECTOR

/s/ METTE FERKINGSTAD

/s/ GEIR AALHUS

/s/ SIV HELEN RYGH TORSTENSEN

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Equinor Energy AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Equinor Energy AS, which comprise the balance sheet as at 31 December 2020, the income statement, statement of comprehensive income and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Managing Director (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Stavanger, 26 March 2021
ERNST & YOUNG AS

The auditor's report is signed electronically

Erik Mamelund
State Authorised Public Accountant (Norway)