Press release

26 July, 2018

Equinor second quarter 2018 and first half results

Equinor, in its first financial report since the name change, reports adjusted earnings of USD 4.3 billion and USD 1.7 billion after tax in the second quarter of 2018. IFRS net operating income was USD 3.8 billion and the IFRS net income was USD 1.2 billion.

The second quarter was characterised by:

- Solid results and cash flow from operations, strong adjusted earnings after tax [5]
- Record high international production
- Value enhancing transactions and high project activity

"We capture value from higher prices and deliver solid results and cash flow from operations. This quarter we deliver very strong results from our international operations, while new fields, increased maintenance and some quarter specific items contribute to somewhat higher costs at the NCS. This underlines the importance of continued cost focus across the organisation. We are on track to deliver on our guiding to the capital market," says Eldar Sætre, President and CEO of Equinor ASA.

"We continue to build on our industrial strengths and develop our portfolio. In the quarter we have closed the Roncador and Carcara transactions in Brazil and the North Platte transaction in the US, and we have secured new and attractive exploration acreage in Brazil, the UK and Norway. We have started field installation at Johan Sverdrup and have high project activity with several projects in execution. In July, we delivered the development plan for the very profitable Troll Phase 3 project for approval," says Sætre.

Adjusted earnings [5] were USD 4.3 billion in the second quarter, up from USD 3.0 billion in the same period in 2017. Adjusted earnings after tax [5] were USD 1.7 billion in the second quarter, up from USD 1.3 billion in the same period last year, which included a reversal of a provision in Angola of USD 0.7 billion. Higher prices for both liquids and gas, coupled with high production, contributed to the increase. Due to increased maintenance and some quarter and field specific items, underlying operating costs and administrative expenses per barrel are slightly up compared to same quarter last year, adjusted for new fields in production.

IFRS net operating income was USD 3.8 billion in the second quarter compared to USD 3.2 billion in the same period of 2017. In the quarter, Equinor had a net impairment reversal of USD 0.3 billion and a negative effect from changes in the unrealised fair value of derivatives of USD 0.5 billion. IFRS net income was USD 1.2 billion, down from USD 1.4 billion in the second quarter of 2017.

Equinor delivered equity production of 2,028 mboe per day in the second quarter, an increase from 1,996 mboe per day in the same period in 2017. The increase was primarily due to higher production in the US. The production growth [7] was 2% compared to the second quarter of 2017.

As of second quarter 2018, Equinor had completed 10 exploration wells with four commercial discoveries. Adjusted exploration expenses [5] in the quarter were USD 234 million, up from USD 224 million in the same quarter of 2017, mainly due to higher drilling activity.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 13.2 billion for the first half of 2018 compared to USD 10.5 billion same period 2017. Organic capital expenditure [5] was USD 4.6 billion for the first six months of 2018. End of June, net debt to capital employed [5] increased from 25.1% to 27.2%, after value enhancing transactions and increased working capital.

The board of directors has decided to maintain a dividend of USD 0.23 per share for the second quarter.

The twelve-month average Serious Incident Frequency (SIF) was 0.5 for the twelve months ended 30 June 2018, compared to 0.7 in the same period a year ago.

Q2 2018	Quarters Q1 2018	Q2 2017	Change Q2 on Q2	(in USD million, unless stated otherwise)	2018	First half 2017	Change
3,835	4,960	3,244	18%	Net operating income	**8,795**	7,494	17%
4,314	4,414	3,023	43%	Adjusted earnings [5]	**8,728**	6,336	38%
1,220	1,285	1,436	(15%)	Net income	**2,506**	2,500	0%
1,695	1,473	1,289	31%	Adjusted earnings after tax [5]	**3,168**	2,403	32%
2,028	2,180	1,996	2%	Total equity liquids and gas production (mboe per day) [4]	**2,104**	2,071	2%
65.8	60.2	44.5	48%	Group average liquids price (USD/bbl) [1]	**63.0**	46.7	35%

GROUP REVIEW

Second quarter 2018

Total equity liquids and gas production [4] was 2,028 mboe per day in the second quarter of 2018, up 2% compared to 1,996 mboe per day in the second quarter of 2017 mainly due to start-up of new fields and additional wells coming on stream, especially in the US onshore business. Expected natural decline partially offset the increase.

Total entitlement liquids and gas production [3] was slightly up 1% to 1,851 mboe per day in the second quarter of 2018 compared to 1,836 mboe per day in the second quarter of 2017. Increased production as described above, was partially offset by negative effects from production sharing agreements (PSA) [4] and US royalties [4] due to higher prices in the second quarter of 2018. The effects from PSA and US royalties were 178 mboe per day in total in the second quarter of 2018 compared to 160 mboe per day in the second quarter of 2017.

Q2 2018	Quarters Q1 2018	Q2 2017	Change Q2 on Q2	Condensed income statement under IFRS (unaudited, in USD million)	2018	First half 2017	Change
18,135	19,884	14,935	21%	Total revenues and other income	**38,019**	30,463	25%
(9,415)	(9,794)	(6,857)	37%	Purchases [net of inventory variation]	**(19,209)**	(13,323)	44%
(2,579)	(2,514)	(2,210)	17%	Operating and administrative expenses	**(5,093)**	(4,852)	5%
(1,830)	(2,368)	(2,312)	(21%)	Depreciation, amortisation and net impairment losses	**(4,198)**	(4,255)	(1%)
(475)	(249)	(312)	52%	Exploration expenses	**(724)**	(539)	34%
3,835	4,960	3,244	18%	Net operating income	**8,795**	7,494	17%
1,220	1,285	1,436	(15%)	Net income	**2,506**	2,500	0%

Net operating income was USD 3,835 million in the second quarter of 2018, compared to USD 3,244 million in the second quarter of 2017. The 18% increase was primarily due to higher liquids and gas prices, increased gas volumes, and a net reversal of impairments compared to a net impairment charge in the same period in 2017. The increase was partially offset by reduced value of derivatives and increased operating and administrative expenses. In addition, the second quarter of 2017 results were positively impacted by a reversal of provisions of USD 754 million related to our operations in Angola.

In the second quarter of 2018, net operating income was negatively affected by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 553 million and positively affected by net reversal of impairments of USD 273 million.

In the second quarter of 2017, net operating income was positively impacted by increased revenues due to the reversal of provisions of USD 754 million in Angola, and by changes in fair value of derivatives and inventory hedge contracts of USD 198 million.

For more information about net impairment reversals, see note 2 Segments to the Condensed interim financial statements. For adjustments to net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

Q2 2018	Quarters Q1 2018	Q2 2017	Change Q2 on Q2	Adjusted earnings (in USD million)	2018	First half 2017	Change
18,688	19,408	14,664	27%	Adjusted total revenues and other income	**38,097**	29,235	30%
(9,327)	(9,859)	(6,946)	34%	Adjusted purchases [6]	**(19,186)**	(13,347)	44%
(2,467)	(2,530)	(2,164)	14%	Adjusted operating and administrative expenses	**(4,997)**	(4,437)	13%
(2,346)	(2,368)	(2,307)	2%	Adjusted depreciation expenses	**(4,714)**	(4,689)	1%
(234)	(238)	(224)	5%	Adjusted exploration expenses	**(472)**	(426)	11%
4,314	4,414	3,023	43%	Adjusted earnings [5]	**8,728**	6,336	38%
1,695	1,473	1,289	31%	Adjusted earnings after tax [5]	**3,168**	2,403	32%

Adjusted operating and administrative expenses were USD 2,467 million in the second quarter of 2018, an increase of USD 303 million compared to the second quarter of 2017. The increase was mainly driven by higher activity from start-up of new fields and additional wells coming on stream in the US onshore business, higher maintenance activity and increased transportation costs because of higher gas volumes. The NOK/USD exchange rate development and increased royalty expenses due to higher prices, added to the cost increase.

Adjusted depreciation expenses were USD 2,346 million in the second quarter of 2018, compared to USD 2,307 million in the second quarter of 2017. The 2% increase was mainly related to higher depreciation costs due to increased production from new fields on stream and the development in the NOK/USD exchange rate, partially offset by higher reserves estimates.

Adjusted exploration expenses were USD 234 million in the second quarter of 2018, a minor increase of USD 10 million compared to the second quarter of 2017, mainly due to higher drilling costs partially offset by lower seismic activity and a higher capitalisation rate.

After total adjustments[1] of net USD 479 million to net operating income, **Adjusted earnings** [5] were USD 4,314 million in the second quarter of 2018, up from USD 3,023 million in the second quarter of 2017.

Adjusted earnings after tax [5] were USD 1,695 million in the second quarter of 2018, which reflects an effective tax rate on adjusted earnings of 60.7%, compared to 57.4% in the second quarter of 2017. The increase in effective tax rate was mainly due to reversal of provisions related to our operations in Angola in the second quarter of 2017 partially offset by increased adjusted earnings in the second quarter of 2018 in entities with lower than average tax rates, or in entities with unrecognised deferred tax assets.

Total cash flows decreased by USD 14 million compared to the second quarter of 2017.

Cash flows provided by operating activities decreased by USD 1,050 million compared to the second quarter of 2017. The decrease was mainly due to a change in working capital, increased tax payments and a reduction in derivative effects, partially offset by increased liquids and gas prices.

Cash flows used in investing activities decreased by USD 1,931 million compared to the second quarter of 2017. The decrease was mainly due to reduced financial investments and increased proceeds from sale of assets, partially offset by additions through business combinations.

Cash flows used in financing activities increased by USD 894 million compared to the second quarter of 2017. The increase was mainly due to repayment of loans.

Free cash flow [5] in the second quarter of 2018 was negative USD 679 million compared to USD 561 million in the second quarter of 2017. The decrease was mainly due to additions through business combinations, increased tax payments and capital expenditures, partially offset by higher liquids and gas prices and increased proceeds from sale of assets.

[1] For adjustments to net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

First half 2018

Net operating income was USD 8,795 million in the first half of 2018 compared to USD 7,494 million in the first half of 2017. The 17% increase was primarily driven by higher liquids and gas prices and increased gas volumes in the first half of 2018 compared to the same period of 2017. Reduced value of derivatives, lower volumes of liquids sold and a reversal of a provision that positively affected revenues in the first half of 2017, partially offset the increase.

In addition to the positive effect from net impairment reversals of USD 264 million and an implementation effect of USD 287 million related to a change in accounting policy for lifting imbalances, net operating income was negatively impacted by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 367 million in the first half of 2018.

In the first half of 2017, net operating income was positively impacted by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 1,029 million, a reversal of the provision related to our Angola operations of USD 754 million and net reversal of impairments of USD 321 million. Losses from sale of assets of USD 388 million negatively impacted net operating income in the first half of 2017.

Adjusted operating and administrative expenses were USD 4,997 million in the first half of 2018, an increase of USD 560 million compared to the first half of 2017. The increase was mainly driven by higher activity from start-up and ramp-up on various fields, higher maintenance activity and increased transportation costs. The NOK/USD exchange rate development and higher royalty expenses due to higher prices, added to the increase.

Adjusted depreciation expenses remained at the same level and were USD 4,714 million in the first half of 2018. Start-up and ramp-up of new fields, changed depreciation basis for one of the fields on the NCS and the NOK/USD currency exchange rate development increased depreciation costs but was offset by reduced depreciation costs due to higher proved reserves estimates on several fields.

Adjusted exploration expenses increased by USD 46 million to USD 472 million in the first half of 2018, primarily due to higher drilling cost because of more expensive wells being drilled compared to the first half of 2017. The increase was partially offset by a higher capitalisation rate and a reduction in seismic expenditures.

After total adjustments[2] of USD 67 million to net operating income, **Adjusted earnings** [5] were USD 8,728 million in the first half of 2018, up 38% from the first half of 2017 when adjusted earnings were USD 6,336 million.

Adjusted earnings after tax [5] were USD 3,168 million for the first half of 2018, compared to USD 2 403 million for the first half of 2017. The effective tax rate on adjusted earnings was 63,7%, compared to an effective tax rate of 62.1% for the first half of 2017. The increase in effective tax rate was mainly due to reversal of provisions related to our operations in Angola in the first half of 2017, partially offset by increased adjusted earnings in the first half of 2018 in entities with lower than average tax rates or in entities with unrecognised deferred tax assets.

Total cash flows increased by USD 2,328 million compared to the first half of 2017.

Cash flows provided by operating activities increased by USD 308 million compared to the first half of 2017. The increase was mainly due to increased liquids and gas prices, partially offset by increased tax payments, a reduction in derivative effects and a change in working capital.

Cash flows used in investing activities decreased by USD 4,054 million compared to the first half of 2017. The decrease was mainly due to reduced financial investments and increased proceeds from sale of assets, partially offset by additions through business combinations.

Cash flows used in financing activities increased by USD 2,034 million compared to the first half of 2017. The increase was mainly due to repayment of loans and dividend paid.

Free cash flow [5] for the first half of 2018 was USD 850 million compared to USD 3,739 million in the first half of 2017 mainly due to additions through business combinations, increased tax payments, increased capital expenditures and dividend paid, partially offset by higher liquids and gas prices and increased proceeds from sale of assets.

[2] For adjustments to net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

OUTLOOK

- **Organic capital expenditures** [5] for 2018 are estimated at around USD 11 billion
- Equinor intends to continue to mature its large portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.5 billion for 2018, excluding signature bonuses
- Equinor's ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2017 – 2020, **production growth** [7] is expected to come from new projects resulting in around 3-4% CAGR (Compound Annual Growth Rate)
- **Production** [7] for 2018 is estimated to be 1-2% above the 2017 level
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 80 mboe per day in the third quarter of 2018. In total, maintenance is estimated to reduce equity production by around 35 mboe per day for the full year of 2018

These forward-looking statements reflect current views about future events and are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. Deferral of production to create future value, gas off-take, timing of new capacity coming on stream, operational regularity, activity level in the US onshore, as well as uncertainty around the closing of the announced transactions represent the most significant risks related to the foregoing production guidance. For further information, see section Forward-Looking Statements.

References

To see end notes referenced in main table and text please download our complete report from our website - https://www.equinor.com/en/investors.html#our-quarterly-results

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