Press release

06 February, 2019

Equinor fourth quarter 2018 and year end results

Equinor reports adjusted earnings of USD 4.4 billion and USD 1.5 billion after tax in the fourth quarter of 2018. IFRS net operating income was USD 6.7 billion and the IFRS net income was USD 3.4 billion.

The fourth quarter and full year were characterised by:

- Solid results and strong cash flow. Net debt ratio reduced to 22.2%
- Strong operational performance. Record high fourth quarter and full year production
- Continued growth in return on average capital employed to 12%
- The reserve replacement ratio (RRR) was all time high at 213%
- Step-up in quarterly dividend by 13% to USD 0.26 per share, subject to approval by the annual general meeting

"Strong operational performance and high production gave solid results and cash flow in a quarter with significant market volatility. We delivered growing returns for the full year and expect continued earnings growth. Following strong improvements in recent years, the board proposes an increase in quarterly dividend of 13% to USD 0.26 per share," says Eldar Sætre, President and CEO of Equinor ASA.

"Our cash flow generation was strong across the business. At an overage oil price of 71 dollars per barrel, we generated an organic free cash flow well above 6 billion dollars for the full year. We have also done several value-enhancing transactions, strengthened our financial position and reduced our net debt ratio from 29 to 22.2 percent," says Sætre.

Adjusted earnings [5] were USD 4.4 billion in the fourth quarter, up from USD 4 billion in the same period in 2017. Adjusted earnings after tax [5] were USD 1.5 billion, up from USD 1.3 billion in the same period last year. High production at higher prices contributed to the increase. Due to sales pricing mechanisms in the market, the significant fall in oil prices led to a negative one-off effect with a higher than normal differential between realised liquids prices and Brent Blend average. In addition, higher exploration activity and lower refinery and products trading margins impacted adjusted earnings negatively. For the full year, adjusted earnings were USD 18 billion, up 42 percent from USD 12.6 billion in 2017.

IFRS net operating income was USD 6.7 billion in the fourth quarter compared to USD 5.2 billion in the same period of 2017. IFRS net income was USD 3.4 billion, up from USD 2.6 billion in the fourth quarter of 2017. For the full year, IFRS net income was USD 7.5 billion, up from USD 4.6 billion in 2017.

"In 2018 we sanctioned seven new projects, which will deliver more than 1 billion barrels of resources to Equinor at an average break-even price of 14 dollars and very low CO2 emissions. In the quarter, we started production at Aasta Hansteen, Oseberg Vestflanken and Big Foot, and at the Apodi solar plant in Brazil. We also had the winning bid in an offshore wind lease round offshore Massachusetts in the US," says Sætre.

Equinor delivered total equity production of 2,170 mboe per day in the fourth quarter, an increase from 2,134 mboe per day in the same period in 2017. The increase was mainly due to portfolio changes and new wells especially in the US onshore. New fields coming on stream added to the increase. Expected natural decline in addition to reduced gas off-take partially offset the increase. Equinor delivered all-time high production in 2018 with an underlying production growth of more than 2% [7].

As of year-end 2018, Equinor had completed 24 exploration wells with nine commercial discoveries. Adjusted exploration expenses [5] in the quarter were USD 417 million, up from USD 274 million in the same quarter of 2017, mainly due to higher seismic and drilling activity.

The reserve replacement ratio (RRR) reached an all-time high of 213% in 2018, mainly driven by sanctioning of new fields, positive revisions and acquisitions. The reserves to production ratio (R/P) increased from 7.6 to 8.7 years.

Cash flows provided by operating activities before tax amounted to USD 27.6 billion in 2018 compared to USD 21.0 billion in 2017. Organic capital expenditure [5] was USD 9.9 billion for the full year of 2018. At year-end, net debt to capital employed [5] was reduced to 22.2%.

The board of directors proposes to the annual general meeting to increase the dividend by 13% to USD 0.26 per share for the fourth quarter.

The twelve-month average Serious Incident Frequency (SIF) was 0.5 for 2018, compared to 0.6 in 2017.

Capital markets update

Today, Equinor presents its update to the capital markets, focusing on three key deliveries:

- Growing cash flow and returns – capacity to generate around USD 14 billion in free cash flow [5] from 2019 to 2021, and more than 14% return on average capital employed (ROACE) [5] in 2021[1]. Equinor can be organic free cash flow positive below USD 50 per barrel from 2019 to 2021
- Investing in a highly competitive portfolio of projects, expected to start production by 2025 and deliver 6 billion barrels to Equinor with low emissions and an average break-even oil price around USD 30 per barrel
- Delivering continued profitable growth at the Norwegian continental shelf, targeting international opportunities where we increasingly can leverage our industrial strength as an operator, and building a profitable core area in Brazil. Equinor expects to deliver around 3 percent compound annual production growth from 2019 to 2025 [7]

"Equinor is already delivering industry leading returns, and we expect to increase returns and cash flow even further going forward. We delivered record high production in 2018, and we are well positioned for profitable growth in the coming years. Internationally we are increasingly taking the role as operator, and we are strengthening Brazil as a core area for Equinor. On the NCS we expect to deliver at a record high production level in 2025," says Sætre.

"We have a strong and highly profitable portfolio of projects coming on stream towards 2025. In 2019 we will start production from Johan Sverdrup, which is expected to deliver a total production close to 300,000 barrels per day to Equinor at plateau, with a break-even price below 20 dollars per barrel," says Sætre.

"We have over the past few years significantly improved our project portfolio and fundamentally strengthened our competitive position, creating a stronger and more resilient company. We continue to develop a culture of consistent capital discipline and continuous improvement. Digitalisation and innovation will support further enhanced safety, increased value creation and reduced emissions," says Sætre.

Equinor's unit production cost is industry leading around five dollars per barrel. The company is aiming to sustain a unit production cost at around 2017 level in 2020[2]. Equinor has reduced the average break-even price of its non-sanctioned portfolio to below 40 USD per barrel, and increased the net present value of this portfolio by more than USD 7 billion since 2017.

Equinor is already an industry leader on carbon efficiency, and the portfolio of projects that will come on stream towards 2025 has 30% lower CO2-emissions per barrel than the current producing portfolio. Equinor continues to develop as a broad energy company, and is gradually building a profitable portfolio also within renewable energy.

Finally, Equinor announces its updated outlook:

- Equinor expects organic capex [5] of around USD 11 billion in 2019
- Equinor expects 2019 production to be around the same level as 2018, and to deliver an average annual production growth of around 3% from 2019 to 2025
- Equinor expects exploration activity of around USD 1.7 billion in 2019

[1] Assuming USD 70 per barrel, real, including announced transactions, excluding new accounting standards and changes in future tax assets
[2] USD per boe Equinor equity production, real, assuming fixed currency

Q4 2018	Quarters Q3 2018	Q4 2017	Change Q4 on Q4	(in USD million, unless stated otherwise)	2018	Full year 2017	Change
6,745	4,597	5,182	30%	Net operating income	**20,137**	13,771	46%
4,387	4,843	3,956	11%	Adjusted earnings [5]	**17,959**	12,638	42%
3,367	1,666	2,575	31%	Net income	**7,538**	4,598	64%
1,537	1,988	1,307	18%	Adjusted earnings after tax [5]	**6,693**	4,528	48%
2,170	2,066	2,134	2%	Total equity liquids and gas production (mboe per day) [4]	**2,111**	2,080	1%
59.0	67.6	56.0	5%	Group average liquids price (USD/bbl) [1]	**63.1**	49.1	29%

GROUP REVIEW

Fourth quarter 2018

Total equity liquids and gas production [4] was 2,170 mboe per day in the fourth quarter of 2018, up around 2% compared to 2,134 mboe per day in the fourth quarter of 2017 mainly due to portfolio changes and new wells especially in the US onshore business. New fields coming on stream added to the increase. Expected natural decline and lower flexible gas off-take partially offset the increase.

Total entitlement liquids and gas production [3] was up 3% to 2,020 mboe per day in the fourth quarter of 2018 compared to 1,962 mboe per day in the fourth quarter of 2017. The increase was due to the same elements as described above and lower effects from production sharing agreements (PSA) [4] partially offset by higher US royalties [4]. The effects from PSA and US royalties were 150 mboe per day in total in the fourth quarter of 2018 compared to 172 mboe per day in the fourth quarter of 2017.

Q4 2018	Quarters Q3 2018	Q4 2017	Change Q4 on Q4	Condensed income statement under IFRS (unaudited, in USD million)	2018	Full year 2017	Change
22,438	19,136	17,114	31%	Total revenues and other income	**79,593**	61,187	30%
(9,821)	(9,486)	(8,414)	17%	Purchases [net of inventory variation]	**(38,516)**	(28,212)	37%
(2,701)	(2,493)	(2,433)	11%	Operating and administrative expenses	**(10,286)**	(9,501)	8%
(2,729)	(2,321)	(1,292)	>100%	Depreciation, amortisation and net impairment losses	**(9,249)**	(8,644)	7%
(442)	(239)	207	N/A	Exploration expenses	**(1,405)**	(1,059)	33%
6,745	4,597	5,182	30%	Net operating income	**20,137**	13,771	46%
3,367	1,666	2,575	31%	Net income	**7,538**	4,598	64%

Net operating income was USD 6,745 million in the fourth quarter of 2018, compared to USD 5,182 million in the fourth quarter of 2017. The increase was primarily due to higher market prices for both liquids and particularly gas while market volatility and sales pricing mechanisms lead to lower than expected realised liquids prices compared to Brent Blend average. The fourth quarter was also positively impacted by changes in fair value of derivatives and inventory hedge effects in addition to a net gain on sale of assets, and a dividend in excess of book value related to an equity accounted investment. The increase was partially offset by increased depreciation expenses mainly due to higher investments, higher production and net impairment reversals in previous periods, in addition to increased exploration expenses due to higher drilling activity.

In the fourth quarter of 2018, net operating income was positively impacted by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 1,192 million, the net effect of a reduction in provision of USD 682 million related to the Agbami redetermination process in Nigeria and a net gain on sale of assets of USD 546 million.

In the fourth quarter of 2017, net operating income was positively impacted by net impairment reversals of USD 1,647 million, partially offset by negative changes in the fair value of derivatives and inventory hedge effects of USD 264 million.

Q4 2018	Quarters Q3 2018	Q4 2017	Change Q4 on Q4	Adjusted earnings (in USD million)	2018	Full year 2017	Change
19,874	19,481	17,455	14%	Adjusted total revenues and other income	**77,451**	60,782	27%
(9,784)	(9,516)	(8,386)	17%	Adjusted purchases [6]	**(38,486)**	(28,247)	36%
(2,705)	(2,471)	(2,407)	12%	Adjusted operating and administrative expenses	**(10,172)**	(9,083)	12%
(2,582)	(2,410)	(2,433)	6%	Adjusted depreciation expenses	**(9,706)**	(9,699)	0%
(417)	(239)	(274)	52%	Adjusted exploration expenses	**(1,128)**	(1,115)	1%
4,387	4,843	3,956	11%	Adjusted earnings [5]	**17,959**	12,638	42%
1,537	1,988	1,307	18%	Adjusted earnings after tax [5]	**6,693**	4,528	48%

Adjusted operating and administrative expenses were USD 2,705 million in the fourth quarter of 2018, an increase of USD 298 million compared to the fourth quarter of 2017. The increase was mainly driven by higher operating costs due to acquired fields, increased transportation costs and higher operation and maintenance activity, partially offset by the NOK/USD exchange rate development.

Adjusted depreciation expenses were USD 2,582 million in the fourth quarter of 2018, compared to USD 2,433 million in the fourth quarter of 2017. The 6% increase was mainly related to higher investments and increased production in addition to effects from net impairment reversals in previous periods and portfolio changes. The increase was partially offset by higher proved reserve estimates on several fields.

Adjusted exploration expenses were USD 417 million in the fourth quarter of 2018, an increase of USD 143 million compared to the fourth quarter of 2017, mainly due to higher drilling costs and higher activity for both drilling and seismic. The increase was partially offset by a higher portion of exploration expenditure being capitalised this quarter.

After total adjustments[3] of net USD 2,358 million to net operating income, **Adjusted earnings** [5] were USD 4,387 million in the fourth quarter of 2018, up from USD 3,956 million in the fourth quarter of 2017.

Adjusted earnings after tax [5] were USD 1,537 million in the fourth quarter of 2018, which reflects an effective tax rate on adjusted earnings of 65.0%, compared to 67.0% in the fourth quarter of 2017. The decrease in the effective tax rate was mainly due to increased adjusted earnings in the fourth quarter of 2018 in entities with lower than average tax rates, and in entities without recognised taxes.

Cash flows provided by operating activities increased by USD 2,480 million compared to the fourth quarter of 2017. The increase was mainly due to increased cash flow from derivatives, higher liquids and gas prices and a change in working capital, partially offset by increased tax payments.

Cash flows used in investing activities increased by USD 493 million compared to the fourth quarter of 2017. The increase was mainly due to increased financial investments, partially offset by increased proceeds from the sale of assets and decreased capital expenditures.

Cash flows used in financing activities decreased by USD 2,623 million compared to the fourth quarter of 2017. The decrease was mainly due to reduced repayment of finance debt, partially offset by increased dividend paid.

Total cash flows increased by USD 4,610 million compared to the fourth quarter of 2017.

Free cash flow [5] in the fourth quarter of 2018 was USD 637 million, an increase of USD 1,011 million compared to the fourth quarter of 2017. The increase was mainly due to higher liquids and gas prices, increased proceeds from the sale of assets and decreased capital expenditures, partially offset by increased tax payments and dividends paid.

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

Full year 2018

Net operating income was USD 20,137 million in 2018 compared to USD 13,771 million in 2017. The 46% increase was primarily driven by higher liquids and gas prices and higher volumes. The increase was partially offset by lower impairment reversals compared to 2017, increased operating and administrative expenses due to higher operation and maintenance activity, increased depreciation expenses due to higher investments and production, and increased exploration expenses due to higher drilling activity.

In addition to the positive effect from a net gain on sale of assets of USD 654 million and the effect of a reduction in provision of USD 564 million, net operating income was positively impacted by changes in fair value of derivatives and inventory hedge contracts of USD 375 million, net impairment reversals of USD 315 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 operational storage effects of USD 132 million in 2018.

In 2017, net operating income was positively impacted by net impairment reversals of USD 1,137 million, a reversal of provisions related to our operations in Angola of USD 754 million and positive changes in the fair value of derivatives and inventory hedge contracts of USD 240 million, and negatively impacted by net losses on the sale of assets of USD 372 million.

Adjusted operating and administrative expenses were USD 10,172 million in 2018, an increase of USD 1,089 million compared to 2017. The increase was primarily due to higher operation and maintenance activity, acquired fields and increased transportation costs primarily driven by volume growth.

Adjusted depreciation expenses remained at the same level as in 2017 and were USD 9,706 million in 2018. Higher proved reserves estimate on several fields decreased the depreciation costs, offset by higher investments, effects from net impairment reversals in previous periods and increased production in the E&P International segment.

Adjusted exploration expenses increased by USD 13 million to USD 1,128 million in 2018, primarily due to higher drilling costs because of more expensive wells being drilled offset by a higher portion of exploration expenses being capitalised compared to 2017.

After total adjustments[4] of USD 2,178 million to net operating income, **Adjusted earnings** [5] were USD 17,959 million in 2018, up 42% from 2017 when adjusted earnings were USD 12,638 million.

Adjusted earnings after tax [5] were USD 6,693 million in 2018, compared to USD 4,528 million in 2017. The effective tax rate on adjusted earnings was 62.7%, compared to an effective tax rate of 64.2% for 2017. The decrease in the effective tax rate was mainly due to increased adjusted earnings in 2018 in entities without recognised taxes, partially offset by a reversal of provisions related to our operations in Angola in 2017.

Based on adjusted earnings after tax and average capital employed, calculated **return on average capital employed (ROACE)** [5] was 12.0% for the 12-month period ended 31 December 2018 and 8.2% for the 12-month period ended 31 December 2017.

Organic capital expenditures [5] amounted to USD 9.9 billion for the year ended 2018, compared to the original guidance for 2018 of USD 11 billion. Total capital expenditures were USD 15.2 billion in 2018.

Proved reserves at the end of 2018 were 6.175 billion boe, a net increase of 808 million boe compared to 5.367 billion boe at the end of 2017. The increase was mainly due to extensions and discoveries from sanctioning of new field development projects, mainly from the Troll phase 3 and the Johan Sverdrup phase 2 developments. Positive reserves revisions mainly due to continued drilling and improved oil recovery (IOR) efforts, higher prices and improved production performance, in addition to the acquisition of the Roncador field in Brazil and the increased ownership share in the Martin Linge field in Norway, contributed to the increase. The increase in reserves was partially offset by the 2018 production.

The reserve replacement ratio (RRR) was 213% in 2018 compared to 150% in 2017. The RRR measures the proved reserves added to the reserve base and includes the effects of sales and purchases, relative to the amount of oil and gas produced. The average three-year replacement ratio (including the effects of sales and purchases), was 153% at the end of 2018 compared to 99% at the end of 2017. The organic reserves replacement ratio, excluding sales and purchases was 189% compared to 148% in 2017. The organic average three-year replacement ratio, was 144% at the end of 2018.

All numbers are including equity accounted entities.

Cash flows provided by operating activities increased by USD 4,892 million compared to the full year 2017. The increase was mainly due to higher liquids and gas prices and a change in working capital, partially offset by increased tax payments.

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

Cash flows used in investing activities increased by USD 1,095 million compared to the full year 2017. The increase was mainly due to increased additions through business combinations and increased capital expenditures, partially offset by increased proceeds from the sale of assets, reduced financial investments and increased cash flow from derivatives.

Cash flows used in financing activities decreased by USD 798 million compared to the full year 2017. The decrease was mainly due to reduced repayment of finance debt and a bond issue, partially offset by increased dividends paid and increased collateral payments related to derivatives.

Total cash flows increased by USD 4,595 million compared to the full year 2017.

Free cash flow [5] for the full year of 2018 was USD 3,125 million compared to USD 3,458 million in the full year 2017. The decrease was mainly due to additions through business combinations, increased tax payments, increased capital expenditures and dividend paid, offset by higher liquids and gas prices and increased proceeds from the sale of assets. Excluding cash used in acquisitions, capital leases, other investments with significant different cash flow pattern, and proceeds from sale of assets; on an organic basis, free cash flow was more than USD 6 billion for the full year 2018.

OUTLOOK

- **Organic capital expenditures** [5] for 2019 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 1.7 billion for 2019, excluding signature bonuses
- Equinor´s ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2019 – 2025, **production growth** [7] is expected to come from new projects resulting in around 3% CAGR (Compound Annual Growth Rate)
- **Production** [7] for 2019 is estimated to be around the 2018 level
- **Scheduled maintenance activity** is estimated to reduce quarterly production by approximately 15 mboe per day in the first quarter of 2019. In total, maintenance is estimated to reduce equity production by around 40 mboe per day for the full year of 2019

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

References

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

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