Press release

25 July, 2019

Equinor second quarter 2019 results

Equinor reports adjusted earnings of USD 3.15 billion and USD 1.13 billion after tax in the second quarter of 2019. IFRS net operating income was USD 3.52 billion and the IFRS net income was USD 1.48 billion.

The second quarter was characterised by:

- Overall solid operational performance, maintaining high production
- Financial results impacted by lower prices, turnarounds and production mix
- Lowering organic capex guiding from USD 11 billion to USD 10-11 billion
- Progressing attractive project portfolio – further reducing capex for Johan Sverdrup phase 1

"We deliver overall solid operational performance and maintain high production in a quarter with lower commodity prices and high maintenance activity. I am pleased that we demonstrate continued strong cost focus and capital discipline. Combined with efficient project execution, this enables us to reduce our organic capex guiding for 2019 to 10-11 billion dollars", says Eldar Sætre, President and CEO of Equinor ASA.

"We continue to progress our highly competitive projects delivering production growth towards 2025. Today we announce that we have improved the world-class Johan Sverdrup project even further. Investment costs for phase 1 have been reduced by an additional 3 billion kroner, bringing total reductions to 40 billion kroner since submission of the plan for development and operations. With a planned start up later this year, and faster ramp up to reach plateau production during summer next year, the project will produce and create substantial value for decades to come. Earlier this month we announced that we are capitalising on our investment in Lundin and increasing our direct ownership in Johan Sverdrup to 42.6%", says Sætre.

"Last week, after a competitive bid process, we were awarded the opportunity to develop our biggest renewables project so far. The Empire Wind project marks a milestone in the development of our global offshore wind portfolio, and we are proud to have been selected to deliver renewable energy to more than half a million families in New York", says Sætre.

Adjusted earnings [5] were USD 3.15 billion in the second quarter, down from USD 4.31 billion in the same period in 2018. Adjusted earnings after tax [5] were USD 1.13 billion, down from USD 1.70 billion in the same period last year. Production was maintained at a high level, but lower prices, high turnaround activity and some quarter specific items impacted the result. The liquids share of the production mix was low in the quarter and will increase going forward. Underlying operating costs and administrative expenses per barrel increased somewhat from the same quarter last year, mainly due to new fields coming on stream. Adjusted depreciation expenses were down. Weak refinery results and a timing effect on gas storages impacted the results from the Marketing, Midstream & Processing reporting segment in the quarter. IFRS net operating income was USD 3.52 billion in the second quarter, down from USD 3.84 billion in the same period of 2018. IFRS net income was USD 1.48 billion, up from USD 1.22 billion in the second quarter of 2018.

Equinor delivered total equity production of 2,012 mboe per day in the second quarter, on par with the same period in 2018. Expected natural decline was offset by increased production from new fields and new wells.

As of the end of second quarter 2019, Equinor had completed 21 exploration wells with seven commercial discoveries. Adjusted exploration expenses [5] in the quarter were USD 0.24 billion, on par with the same quarter of 2018, with more wells drilled and completed.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 11.96 billion for the first half of 2019 compared to USD 13.22 billion in the same period of 2018. Organic capital expenditure [5] was USD 4.82 billion for the first six months of 2019. At quarter end, net debt to capital employed[1] was 19.9%. Following the implementation of IFRS 16, net debt to capital employed[1] was 25.9%.

The board of directors has decided on a dividend of USD 0.26 per share for the second quarter.

The twelve-month average Serious Incident Frequency (SIF) was 0.5 for the twelve months ended 30 June 2019, equal to the average for the same period a year ago.

	Quarters		Change			First half	
Q2 2019	Q1 2019	Q2 2018	Q2 on Q2	(in USD million, unless stated otherwise)	2019	2018	Change
3,521	4,732	3,835	(8%)	Net operating income	**8,252**	8,795	(6%)
3,153	4,187	4,314	(27%)	Adjusted earnings [5]	**7,340**	8,728	(16%)
1,476	1,712	1,220	21%	Net income	**3,188**	2,506	27%
1,126	1,535	1,695	(34%)	Adjusted earnings after tax [5]	**2,662**	3,168	(16%)
2,012	2,178	2,028	(1%)	Total equity liquids and gas production (mboe per day) [4]	**2,095**	2,104	(0%)
59.3	55.8	65.8	(10%)	Group average liquids price (USD/bbl) [1]	**57.4**	63.0	(9%)

GROUP REVIEW

Second quarter 2019

Total equity liquids and gas production [4] was 2,012 mboe per day in the second quarter of 2019, on par with the same period last year when it was 2,028 mboe per day. Expected natural decline on the NCS and in the E&P International reporting segment was partially offset by ramp-up of new fields on the NCS and portfolio changes in the E&P International reporting segment.

Total entitlement liquids and gas production [3] was 1,842 mboe per day in the second quarter of 2019, on par with the same period last year when it was 1,851 mboe per day. Decreased production as described above and higher US royalties [4] were partially offset by lower effects from production sharing agreements (PSA) [4]. The net effect of PSA and US royalties was 171 mboe per day in total in the second quarter of 2019 compared to 178 mboe per day in the second quarter of 2018.

	Quarters		Change	Condensed income statement under IFRS		First half	
Q2 2019	Q1 2019	Q2 2018	Q2 on Q2	(unaudited, in USD million)	2019	2018	Change
17,096	16,482	18,135	(6%)	Total revenues and other income	**33,578**	38,019	(12%)
(8,606)	(6,656)	(9,415)	(9%)	Purchases [net of inventory variation]	**(15,261)**	(19,209)	(21%)
(2,502)	(2,639)	(2,579)	(3%)	Operating and administrative expenses	**(5,141)**	(5,093)	1%
(2,233)	(2,188)	(1,830)	22%	Depreciation, amortisation and net impairment losses	**(4,421)**	(4,198)	5%
(235)	(268)	(475)	(51%)	Exploration expenses	**(503)**	(724)	(31%)
3,521	4,732	3,835	(8%)	Net operating income	**8,252**	8,795	(6%)
1,476	1,712	1,220	21%	Net income	**3,188**	2,506	27%

Net operating income was USD 3,521 million in the second quarter of 2019, compared to USD 3,835 million in the second quarter of 2018. The decrease was mainly due to lower average prices for liquids and gas, lower liquids volumes, higher depreciation expenses mainly due to net impairment reversals in the second quarter of 2018, and some quarter specific items decreasing net operating income. The decrease was partially offset by reduced exploration expenses in the second quarter of 2019 as an effect of impairments in the second quarter of 2018 related to North America.

In the second quarter of 2019, net operating income was positively impacted by a net gain on sale of assets of USD 139 million.

[1] This is a non-GAAP figure. Comparison numbers and reconciliation to IFRS are presented in the table Calculation of capital employed and net debt to capital employed ratio as shown under the Supplementary section in the report.

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 impairment reversals of USD 273 million.

	Quarters		Change	Adjusted earnings		First half	
Q2 2019	Q1 2019	Q2 2018	Q2 on Q2	(in USD million)	2019	2018	Change
16,875	15,772	18,688	(10%)	Adjusted total revenues and other income	**32,647**	38,097	(14%)
(8,791)	(6,543)	(9,327)	(6%)	Adjusted purchases [6]	**(15,335)**	(19,186)	(20%)
(2,462)	(2,470)	(2,467)	(0%)	Adjusted operating and administrative expenses	**(4,932)**	(4,997)	(1%)
(2,233)	(2,303)	(2,346)	(5%)	Adjusted depreciation, amortisation and net impairment losses	**(4,536)**	(4,714)	(4%)
(235)	(268)	(234)	0%	Adjusted exploration expenses	**(503)**	(472)	6%
3,153	4,187	4,314	(27%)	Adjusted earnings [5]	**7,340**	8,728	(16%)
1,126	1,535	1,695	(34%)	Adjusted earnings after tax [5]	**2,662**	3,168	(16%)

Adjusted total revenues and other income were USD 16,875 million in the second quarter of 2019 compared to USD 18,688 million in the second quarter of 2018. Lower average prices for liquids and gas, and lower liquids volumes partially offset by higher gas volumes, negatively affected Adjusted total revenues and other income as well as Adjusted purchases [6].

Adjusted operating and administrative expenses were USD 2,462 million in the second quarter of 2019, the same level as second quarter last year. Increased transportation cost and portfolio changes were offset by the implementation of IFRS 16[2] and the NOK/USD exchange rate development.

Adjusted depreciation, amortisation and net impairment losses were USD 2,233 million in the second quarter of 2019, compared to USD 2,346 million in the second quarter of 2018. The 5% reduction was mainly due to higher proved reserves estimates, no depreciation effect for one of the fields on the NCS and net decrease in production. The decrease was partially offset by ramp-up of new fields, increased investment in North America and the implementation of IFRS 16[2].

Adjusted exploration expenses were USD 235 million in the second quarter of 2019, same level as second quarter last year. Higher drilling and field development costs were offset by a higher portion of exploration expenditures being capitalised this quarter. For more information, see table Adjusted exploration expenses in the Supplementary disclosures.

After total adjustments[3] of USD 367 million to net operating income, **Adjusted earnings** [5] were USD 3,153 million in the second quarter of 2019, a 27% reduction from USD 4,314 million in the second quarter of 2018.

Adjusted earnings after tax [5] were USD 1,126 million in the second quarter of 2019, which reflects an effective tax rate on adjusted earnings of 64.3%, compared to 60.7% in the second quarter of 2018. The increase in the effective tax rate was mainly due to decreased adjusted earnings in the second quarter of 2019 in entities with unrecognised deferred tax assets.

Cash flows provided by operating activities decreased by USD 341 million compared to the second quarter of 2018. The decrease was mainly due to lower liquids and gas prices and increased tax payments, partially offset by a change in working capital.

Cash flows used in investing activities increased by USD 104 million compared to the second quarter of 2018. The increase was mainly due to increased financial investments and reduced proceeds from the sale of assets, partially offset by decreased additions through business combinations and capital expenditures.

Cash flows used in financing activities decreased by USD 1,446 million compared to the second quarter of 2018. The decrease was mainly due to lower repayment of finance debt, partially offset by lease payments being reclassified to financing cash flow following the IFRS 16[2] implementation and increased dividend paid.

Total cash flows increased by USD 1,000 million compared to the second quarter of 2018.

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

Free cash flow [5] in the second quarter of 2019 was negative USD 828 million compared to negative USD 679 million in the second quarter of 2018. The decrease was mainly due to reduced proceeds from sale of assets, lower liquids and gas prices, increased tax payments and dividend paid, partially offset by lower cashflow used for business combinations, lower capital expenditures and lease payments being reclassified to financing cash flow following the IFRS 16[4] implementation.

First half 2019

Net operating income was USD 8,252 million in the first half of 2019 compared to USD 8,795 million in the first half of 2018. The 6% decrease was primarily driven by lower liquids and gas prices and lower liquids volumes. Higher depreciation expenses due to ramp-up of new fields, and portfolio changes in addition to net impairment reversals in the first half of 2018 added to the decrease. The decrease was offset by changes in the fair value of derivatives and inventory hedge contracts, and reduced exploration expenses mainly due to impairments in the first half of 2018.

In addition to the positive effect from changes in the fair value of derivatives, inventory hedge contracts of USD 711 million and a net gain on sale of assets of USD 150 million, net operating income was positively impacted by operational storage effects of USD 117 million and an impairment reversal of USD 116 million in the first half of 2019. Net operating income was negatively impacted by an implementation effect of USD 123 million related to a change in accounting policy for lifting imbalances.

In the first half of 2018, net operating income was positively impacted by effects 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.

Adjusted total revenues and other income were USD 32,647 million in the first half of 2019 compared to USD 38,097 million in the first half of 2018. Lower liquids volumes and average prices for liquids and gas partially offset by higher gas volumes, negatively affected Adjusted total revenues and other income, as well as Adjusted purchases [6].

Adjusted operating and administrative expenses were USD 4,932 million in the first half of 2019, a decrease of USD 65 million compared to the first half of 2018. The slight decrease was primarily due to the NOK/USD exchange rate development and the implementation of IFRS 16[4]. Portfolio changes and increased transportation costs as well as operational and maintenance costs, primarily driven by ramp-up of new fields on the NCS and volume growth in the E&P International segment, offset the decrease.

Adjusted depreciation, amortisation and net impairment losses were USD 4,536 million in the first half of 2019, a decrease of USD 178 million compared to the first half of 2018. The decrease was due to higher proved reserves estimates on several fields, no depreciation effect on one of the fields on the NCS and a net decrease in production, partially offset by increased investments in the E&P International segment, ramp-up of new fields and the implementation of IFRS 16[4].

Adjusted exploration expenses increased by USD 31 million to USD 503 million in the first half of 2019, primarily due to higher drilling and field development costs partially offset by a higher portion of exploration expenses being capitalised compared to the first half of 2018.

After total adjustments[5] of USD 912 million to net operating income, **Adjusted earnings** [5] were USD 7,340 million in the first half of 2019, down 16% from the first half of 2018 when adjusted earnings were USD 8,728 million.

Adjusted earnings after tax [5] were USD 2,662 million in the first half of 2019, compared to USD 3,168 million in the first half of 2018. The effective tax rate on adjusted earnings was 63.7% in the first half of 2019, the same level as in the first half of 2018.

Cash flows provided by operating activities decreased by USD 2,282 million compared to the first half of 2018. The decrease was mainly due to lower liquids and gas prices, increased tax payments and a change in working capital.

Cash flows used in investing activities increased by USD 3,442 million compared to the first half of 2018. The increase was mainly due to increased financial investments and reduced proceeds from the sale of assets, partially offset by decreased additions through business combinations and capital expenditures.

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

Cash flows used in financing activities decreased by USD 1,464 million compared to the first half of 2018. The decrease was mainly due to lower repayment of finance debt and higher cash inflow from collateral related to derivatives, partially offset by lease payments being reclassified to financing cash flow following the IFRS 16[6] implementation and increased dividend paid.

Total cash flows decreased by USD 4,260 million compared to the first half of 2018.

Free cash flow [5] in the first half of 2019 was USD 1,010 million compared to USD 850 million in the first half of 2018. The increase was mainly due to lower cash flow used for business combinations, lower capital expenditures and lease payments being reclassified to financing cash flow following the IFRS 16[6] implementation, partially offset by lower liquids and gas prices, reduced proceeds from the sale of assets, increased tax payments and increased dividend paid.

OUTLOOK

- **Organic capital expenditures** [5] for 2019 are estimated at USD 10-11 billion
- Equinor intends to continue to mature its large portfolio of exploration assets and estimates a total **exploration activity** level of around USD 1.7 billion for 2019, excluding signature bonuses
- Equinor's ambition is to keep the **unit of production cost** in the top quartile of its peer group
- For the period 2019 – 2025, **production growth** [7] is expected to come from new projects resulting in around 3% CAGR (Compound Annual Growth Rate)
- **Production** [7] for 2019 is estimated to be around the 2018 level
- **Scheduled maintenance activity** is estimated to reduce the quarterly production by approximately 50 mboe per day in the third 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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[6] See note 8 Changes in accounting policies 2019 to the Condensed interim financial statements.