

Press release

25 October, 2018

Equinor third quarter 2018 and first nine months results

Equinor reports adjusted earnings of USD 4.8 billion and USD 2.0 billion after tax in the third quarter of 2018. IFRS net operating income was USD 4.6 billion and the IFRS net income was USD 1.7 billion.

The third quarter was characterised by:

- Strong results and cash flow from operations. Net debt ratio reduced to 25.7%
- Reduced organic capex guiding to around USD 10 billion, continued strong cost focus
- Value enhancing transactions to strengthen and sharpen the portfolio

“With solid operational performance and production efficiency, we delivered strong results and cash flow across all segments. We continued to strengthen our balance sheet and reduced our net debt ratio to 25.7 percent in the quarter,” says Eldar Sætre, President and CEO of Equinor ASA.

“We have achieved significant cost improvements in recent years, allowing us to capture more value from higher prices. We will continue with a strong cost focus to further strengthen our competitive position. As a result of capital discipline and efficient project execution, we are able to reduce our organic capex guiding for 2018 to around 10 billion dollars,” says Sætre.

“Project activity remains high, and we have submitted development plans for the next phases of the high value, low carbon Johan Sverdrup and Troll fields. In October we announced the acquisition of a 40% operated interest in the Rosebank field in the UK and the divestments of two non-core assets in Norway. We also continue to develop our portfolio within renewable energy. The Apodi solar project in Brazil is on track, and we delivered first electricity from the Arkona offshore wind project in Germany,” says Sætre.

Adjusted earnings [5] were USD 4.8 billion in the third quarter, up from USD 2.3 billion in the same period in 2017. Adjusted earnings after tax [5] were USD 2.0 billion in the third quarter, up from USD 0.8 billion in the same period last year. Higher prices for both liquids and gas, coupled with high production, contributed to the increase. Adjusted for new fields in production and portfolio changes, underlying operating costs and administrative expenses per barrel are up slightly compared to the same quarter last year, mainly due to increased turnarounds and preparation for start-up of new fields.

IFRS net operating income was USD 4.6 billion in the third quarter compared to USD 1.1 billion in the same period of 2017. IFRS net income was USD 1.7 billion, up from negative USD 0.5 billion in the third quarter of 2017.

Equinor delivered total equity production of 2,066 mboe per day in the third quarter, an increase of 1% [7] from 2,045 mboe per day in the same period in 2017. The increase was primarily due to start-up of new fields, portfolio changes and additional wells coming on stream, partially offset by high maintenance.

As of third quarter 2018, Equinor had completed 15 exploration wells with seven commercial discoveries. The appraisal of the Cape Vulture discovery confirmed the doubling of the remaining reserves at Norne, extending the life and value of the field. Adjusted exploration expenses [5] in the quarter were USD 239 million, down from USD 416 million in the same quarter of 2017, mainly due to a higher capitalisation rate and lower drilling activity.

Cash flows provided by operating activities before tax amounted to USD 20.4 billion in the first nine months of 2018 compared to USD 15.2 billion for the same period last year. Organic capital expenditure [5] was USD 7.2 billion for the first nine months of 2018. At the end of the quarter, net debt to capital employed [5] was reduced from 27.2% to 25.7%.

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

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

Q3 2018	Quarters		Change		(In USD million, unless stated otherwise)	First nine months		
	Q2 2018	Q3 2017	Q3 on Q3	2018		2017	Change	
4,597	3,835	1,095	>100%	Net operating income	13,392	8,588	56%	
4,843	4,314	2,346	>100%	Adjusted earnings [5]	13,571	8,682	56%	
1,666	1,220	(478)	N/A	Net income	4,171	2,022	>100%	
1,988	1,695	819	>100%	Adjusted earnings after tax [5]	5,156	3,222	60%	
2,066	2,028	2,045	1%	Total equity liquids and gas production (mboe per day) [4]	2,091	2,062	1%	
67.6	65.8	47.0	44%	Group average liquids price (USD/bbl) [1]	64.6	46.8	38%	

GROUP REVIEW

Third quarter 2018

Total equity liquids and gas production [4] was 2,066 mboe per day in the third quarter of 2018, up 1% compared to 2,045 mboe per day in the third quarter of 2017 mainly due to start-up of new fields, portfolio changes and additional wells coming on stream especially in the US onshore business. Expected natural decline and higher turnaround activity partially offset the increase.

Total entitlement liquids and gas production [3] was slightly up 1% to 1,895 mboe per day in the third quarter of 2018 compared to 1,883 mboe per day in the third quarter of 2017. The increase was due to the same reasons as described above, partially offset by negative effects from production sharing agreements (PSA) [4] and US royalties [4] primarily due to higher prices in the third quarter of 2018. The effects from PSA and US royalties were 171 mboe per day in total in the third quarter of 2018 compared to 162 mboe per day in the third quarter of 2017.

Q3 2018	Quarters		Change		Condensed income statement under IFRS (unaudited, in USD million)	First nine months		
	Q2 2018	Q3 2017	Q3 on Q3	2018		2017	Change	
19,136	18,135	13,609	41%	Total revenues and other income	57,155	44,073	30%	
(9,486)	(9,415)	(6,475)	46%	Purchases [net of inventory variation]	(28,695)	(19,798)	45%	
(2,493)	(2,579)	(2,216)	13%	Operating and administrative expenses	(7,586)	(7,068)	7%	
(2,321)	(1,830)	(3,096)	(25%)	Depreciation, amortisation and net impairment losses	(6,519)	(7,352)	(11%)	
(239)	(475)	(727)	(67%)	Exploration expenses	(963)	(1,266)	(24%)	
4,597	3,835	1,095	>100%	Net operating income	13,392	8,588	56%	
1,666	1,220	(478)	N/A	Net income	4,171	2,022	>100%	

Net operating income was USD 4,597 million in the third quarter of 2018, compared to USD 1,095 million in the third quarter of 2017. The significant 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. Reduced depreciation and exploration expenses added to the increase in net operating income. The increase was partially offset by changes in unrealised fair value of derivatives and inventory hedge contracts in addition to increased operating and administrative expenses.

In the third quarter of 2018, net operating income was negatively impacted by changes in unrealised fair value of derivatives and inventory hedge contracts of USD 450 million and positively affected by net reversal of impairments of USD 89 million.

In the third quarter of 2017, net operating income was negatively impacted by net impairment charges of USD 830 million mainly related to an unconventional onshore asset in North America, and changes in fair value of derivatives and inventory hedge contracts of USD 525 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.

Q3 2018	Quarters Q2 2018	Q3 2017	Change Q3 on Q3	Adjusted earnings (In USD million)	First nine months 2018	2017	Change
19,481	18,688	14,092	38%	Adjusted total revenues and other income	57,577	43,327	33%
(9,516)	(9,327)	(6,515)	46%	Adjusted purchases [6]	(28,703)	(19,862)	45%
(2,471)	(2,467)	(2,238)	10%	Adjusted operating and administrative expenses	(7,468)	(6,675)	12%
(2,410)	(2,346)	(2,577)	(6%)	Adjusted depreciation expenses	(7,124)	(7,266)	(2%)
(239)	(234)	(416)	(42%)	Adjusted exploration expenses	(712)	(842)	(15%)
4,843	4,314	2,346	>100%	Adjusted earnings [5]	13,571	8,682	56%
1,988	1,695	819	>100%	Adjusted earnings after tax [5]	5,156	3,222	60%

Adjusted operating and administrative expenses were USD 2,471 million in the third quarter of 2018, an increase of USD 233 million compared to the third quarter of 2017. The increase was mainly driven by acquired fields, increased royalties and production fees due to higher prices and volumes, and higher operation and maintenance activity. The NOK/USD exchange rate development partially offset the increase.

Adjusted depreciation expenses were USD 2,410 million in the third quarter of 2018, compared to USD 2,577 million in the third quarter of 2017. The 6% decrease was mainly related to higher reserves estimates, partially offset by increased production from new fields and additional wells coming on stream.

Adjusted exploration expenses were USD 239 million in the third quarter of 2018, a decrease of USD 177 million compared to the third quarter of 2017, mainly due to a higher capitalisation rate and lower drilling activity.

After total adjustments¹ of net USD 247 million to net operating income and the above-mentioned factors, **Adjusted earnings [5]** were USD 4,843 million in the third quarter of 2018, up from USD 2,346 million in the third quarter of 2017.

Adjusted earnings after tax [5] were USD 1,988 million in the third quarter of 2018, which reflects an effective tax rate on adjusted earnings of 59.0%, compared to 65.1% in the third quarter of 2017. The decrease in effective tax rate was mainly due to increased adjusted earnings in the third quarter of 2018 in entities with lower than average tax rates, or in entities with unrecognised deferred tax assets.

Cash flows provided by operating activities increased by USD 2,104 million compared to the third quarter of 2017. The increase was mainly due to increased liquids and gas prices, partially offset by increased tax payments and a change in working capital.

Cash flows used in investing activities increased by USD 4,656 million compared to the third quarter of 2017. The increase was mainly due to increased financial investments and increased capital expenditures, partially offset by decreased payments related to derivatives.

Cash flows used in financing activities decreased by USD 208 million compared to the third quarter of 2017. The decrease was mainly due to repayment of finance debt in the third quarter of 2017 and a bond issue in the third quarter of 2018, partially offset by increased collateral payments related to derivatives and increased dividend paid.

Total cash flows decreased by USD 2,344 million compared to the third quarter of 2017.

Free cash flow [5] in the third quarter of 2018 was USD 1,637 million, an increase of USD 1,545 million compared to the third quarter of 2017. The increase was mainly due to higher liquids and gas prices, partially offset by increased capital expenditures, dividend paid and tax payments.

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

First nine months 2018

Net operating income was USD 13,392 million in the first nine months of 2018 compared to USD 8,588 million in the first nine months of 2017. The 56% increase was primarily driven by higher liquids and gas prices and increased gas volumes in the first nine months of 2018 compared to the same period of 2017. Net reversal of impairments and an implementation effect related to a change in accounting policy for lifting imbalances added to the increase. Changes in unrealised fair value of derivatives and inventory hedge contracts and increased operating and administrative expenses partially offset the increase.

In addition to the positive effect from net impairment reversals of USD 353 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 817 million in the first nine months of 2018.

In the first nine months of 2017, net operating income was positively impacted by a reversal of provisions related to our operations in Angola of USD 754 million and changes in unrealised fair value of derivatives and inventory hedge contracts of USD 504 million. Net operating income was negatively impacted by net impairment charges of USD 511 million, heavily influenced by an impairment of an unconventional onshore asset in North America in the third quarter, and a loss from sale of assets of USD 388 million.

Adjusted operating and administrative expenses were USD 7,468 million in the first nine months of 2018, an increase of USD 792 million compared to the first nine months of 2017. The increase was mainly driven by higher activity from start-up and ramp-up on various fields, higher operation and maintenance activity and the NOK/USD exchange rate development. Increased transportation costs and royalties and production fees due to higher prices, added to the increase.

Adjusted depreciation expenses remained at the same level and were USD 7,124 million in the first nine months of 2018. Higher proved reserves estimate on several fields decreased depreciation costs offset by start-up and ramp-up of new fields and the NOK/USD currency exchange rate development.

Adjusted exploration expenses decreased by USD 130 million to USD 712 million in the first nine months of 2018, primarily due to a higher capitalisation rate and a reduction in seismic expenditures compared to the first nine months of 2017. The decrease was partially offset by higher drilling cost because of more expensive wells being drilled.

After total adjustments² of USD 180 million to net operating income and the above-mentioned factors, **Adjusted earnings** [5] were USD 13,571 million in the first nine months of 2018, up 56% from the first nine months of 2017 when adjusted earnings were USD 8,682 million.

Adjusted earnings after tax [5] were USD 5,156 million for the first nine months of 2018, compared to USD 3,222 million for the first nine months of 2017. The effective tax rate on adjusted earnings was 62.0%, compared to an effective tax rate of 62.9% for the first nine months of 2017. The decrease in effective tax rate was mainly due to increased adjusted earnings in the first nine months of 2018 in entities with lower than average tax rates or in entities with unrecognised deferred tax assets, partially offset by reversal of provisions related to our operations in Angola in the first nine months of 2017.

Cash flows provided by operating activities increased by USD 2,412 million compared to the first nine months of 2017. The increase was mainly due to increased liquids and gas prices, partially offset by increased tax payments, increased payments related to derivatives and a change in working capital.

Cash flows used in investing activities increased by USD 602 million compared to the first nine months of 2017. The increase was mainly due to increased additions through business combinations and increased capital expenditures, partially offset by reduced financial investments and increased proceeds from sale of assets.

Cash flows used in financing activities increased by USD 1,825 million compared to the first nine months of 2017. The increase was mainly due to increased collateral payments related to derivatives, repayment of finance debt and increased dividend paid, partially offset by a bond issue.

Total cash flows decreased by USD 16 million compared to the first nine months of 2017.

Free cash flow [5] for the first nine months of 2018 was USD 2,487 million compared to USD 3,832 million in the first nine months 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 10 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 10 mboe per day in the fourth 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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