2018
Equinor Energy AS

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2019
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Board of directors' report

The oil and gas industry have seen a further strengthening of the market during the year and the financial results of Equinor Energy AS in 2018 were influenced by higher liquids and gas prices. 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 of development projects.

Net operating income was USD 16,292 million in 2018 compared to USD 10,961 million in 2017. The increase was mainly attributable to higher revenues due to higher liquids and gas prices. This was partially offset by increased gas prices on third party gas purchases and reduced volumes.

Operationally and financially, 2018 was a good year for Equinor Energy AS. Net income was USD 5,299 million in 2018 compared to USD 2,489 million in 2017, largely affected by the increase in liquids and gas prices.

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 2018.

Following Statoil ASA changed its name to Equinor ASA, Statoil Petroleum AS changed its name to Equinor Energy AS on 16 May 2018.

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 licenses 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 necessary services from the parent company and other companies in the Equinor group.

Profit and loss analysis

Net operating income was USD 16,292 million in 2018 compared to USD 10,961 million in 2017. The increase was mainly attributable to increased revenues due to higher liquids and gas prices. This was partially offset by increased gas prices on third party gas purchases and reduced volumes.

Condensed financial statements (in USD million)	Full year 2018	2017	Change
Revenues	24,799	20,568	21%
Net income/(loss) from subsidiaries and other equity accounted companies	1,065	(400)	N/A
Other income	566	12	>100%
Total revenues and other income	26,430	20,179	31%
Purchases [net of inventory variation]	(680)	(582)	17%
Operating, selling, general and administrative expenses	(4,489)	(4,258)	5%
Depreciation, amortisation and net impairment losses	(4,537)	(3,998)	13%
Exploration expenses	(431)	(379)	14%
Net operating income/(loss)	16,292	10,961	49%
Net financial items	(274)	(378)	-27%
Income/(loss) before tax	16,018	10,583	51%
Income tax	(10,719)	(8,094)	32%
Net income/(loss)	5,299	2,489	>100%

Revenues amounted to USD 24,799 million in 2018, compared to USD 20,568 million in 2017. The 21% increase was mainly due to higher liquids and gas prices, partially offset by reduced volumes.

Net income from subsidiaries and other equity accounted companies amounted to USD 1,065 million in 2018. In 2017, net loss from subsidiaries and other equity accounted companies amounted to USD 400 million.

Other income was USD 566 million in 2018, mainly related to gains from sales of ownership interests in the Tommeliten discovery, the King Lear discovery and the Luno II discovery on the Norwegian continental shelf.

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 680 million in 2018 compared to USD 582 million in 2017. The increase was mainly due to a higher gas price on third party gas purchased.

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 2018 was USD 4,489 million compared to USD 4,258 million in 2017. The increase was mainly due to increased maintenance costs and new fields coming on stream.

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 13% increase from 2017 was mainly due to lower reversal of impairments in 2018 compared to 2017.

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 2018 and exploration expenditures capitalised in previous years. Exploration expenses increased by 14% compared to 2017, mainly due to higher drilling costs because of more expensive wells being drilled, partially offset by a higher portion of exploration expenditure being capitalised in 2018.

Net operating income was USD 16,292 million in 2018 compared to USD 10,961 million in 2017, mainly due to higher liquids and gas prices, partially offset by reduced volumes.

Net financial items amounted to a loss of USD 274 million in 2018, compared to a loss of USD 378 million in 2017. The reduction compared to last year is mainly due to reduced interest expenses, partially offset by reduced foreign exchange gain and reduced interest income.

Income taxes were USD 10,719 million in 2018, equivalent to a tax rate of 66.9% compared to USD 8,094 million in 2017, equivalent to a tax rate of 76.5%. The lower tax rate is mainly due to tax-exempted gain from divestments on the NCS and higher net profit from subsidiaries and other equity accounted companies.

The net income amounted to USD 5,299 million in 2018 compared to USD 2,489 in 2017. The net income will be allocated to 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 12,421 million, cash flows used in investing activities amounted to USD 8,281 million and cash flows used in financing activities amounted to USD 4,140 million in 2018.

Cash flows provided by operating activities were increased by USD 2,915 million in 2018 compared to the full year 2017. The increase was mainly due to increased liquids and gas prices, and a change in working capital, partially offset by increased tax payments.

Cash flows used in investing activities were reduced by USD 789 million in 2018 compared to the full year 2017. The decrease was mainly related to reduced capital expenditures and increased proceeds from sale of assets.

Cash flows used in financing activities were increased by USD 3,662 million in 2018, compared to the full year 2017. Cash flows used in financing activities in 2018 was mainly increased deposits in internal bank.

Liquidity and capital resources

Equinor Energy AS has further strengthened the financial position through 2018.

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

Risks related to our business

This section describes the most significant potential risks relating to Equinor`s business.

Oil and natural gas prices risks

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

Generally, Equinor will not have control over the factors that affect the prices of oil and natural gas, which include:
- economic and political developments in resource-producing regions
- 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
- prices of alternative fuels that affect the prices realized under Equinor's long-term gas sales contracts
- government regulations and actions; including changes in energy and climate policies
- global economic conditions
- 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 and
- weather conditions

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.

Proved reserves and expected reserves calculation risks

Equinor´s crude oil and natural gas reserves are only estimates and Equinor´s future production, revenues and expenditures with respect to its reserves may differ materially from these estimates. The reliability of proved reserve estimates depends on:
- the quality and quantity of Equinor´s geological, technical and economic data
- the production performance of Equinor´s reservoirs
- extensive engineering judgments and
- whether the prevailing tax rules and other government regulations, contracts and oil, gas and other prices will remain the same as on the date estimates are made

Proved reserves are calculated based on the U.S. Securities and Exchange Commission (SEC) requirements and may therefore differ substantially from Equinor´s view on expected reserves.

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. 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.

Adversely, 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.

Technical, commercial and country specific risks

Equinor is engaged in global exploration activities that involve several technical, commercial and country-specific risks. Technical risks are related 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. Commercial risks are related to Equinor´s ability to secure access to new acreage in an uncertain global competitive and political environment and competent personnel to perform exploration activities along the value-chain.

Country-specific risks are inter alia related to security threats and compliance with and understanding of local laws or license agreements.

These risks may adversely affect Equinor´s current operations and financial results, and its long-term replacement of reserves.

Decline of reserves risks

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

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 prove reserves in a timely manner, Equinor's reserve base and thereby future production will gradually decline and future revenue will be reduced.

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.

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.

Equinor's US onshore portfolio contains significant amount of undeveloped resources that depend on Equinor's ability to develop these successfully. If commodity prices are low over a sustained period of time, this may result in Equinor deciding not to develop these resources or at least deferring development awaiting improved prices.

Health, safety and environmental risks

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. Risk factors include human error, operational failures, detrimental substances, subsurface behaviour, technical integrity failures, vessel collisions, natural disasters, adverse weather conditions or other occurrences. 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.

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.

The risks associated with Equinor's activities and operations are affected by external risk factors like difficult geographies, climate zones and environmentally sensitive regions.

As our operations carries inherent uncertainty, it is not possible to guarantee that our 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 our activities will be carried out in accordance with these systems.

Transition to a lower carbon economy risks

A transition to a lower carbon economy could impact Equinor's business.

A transition to a low-carbon energy future entails risks related to policy, legal, regulatory, market and technology changes and our reputation.

Risk 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, 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 beyond 2020 and to have a wider geographical range than today. Other regulatory risks entail litigation risk and potential direct regulations, for example fuel efficiency standards (e.g. in the EU), restrictions on use of e.g. diesel vehicles and requirements to assess the use of power from shore for new offshore developments at the NCS. Climate-related policy changes may also reduce access to prospective geographical areas for exploration and production in the future. Disruptive developments may not be ruled out, possibly triggered by severe weather events affecting public perception and policymaking.

Market-related risk: 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 risks". 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. The competitiveness of the choices Equinor makes regarding what renewable business opportunities are pursued and invested in is subject to risk and uncertainty.

Reputational impact: Increased concern over climate change could lead to increased expectations to 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 have an impact on talent attraction and retention.

Security threats and Cyber-attacks risks

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 and cyber-attacks against Equinor's production and exploration facilities, offices, pipelines, means of transportation, digital infrastructure or computer- or information systems or breaches of Equinor's security system, could result in losses.

Failure to manage the aforementioned risks could result in injury or loss of life, damage to the environment, damage to or the destruction of wells and production facilities, pipelines and other property. Equinor could face, among other things, regulatory action, legal liability, damage to its reputation, a significant reduction in revenues, an increase in costs, a shutdown of operations and a loss of its investments in affected areas.

Equinor´s IT security barriers are intended to protect its information systems and digital infrastructure from being compromised by unauthorized parties. Failure to maintain and develop these barriers may affect the confidentiality, integrity and availability of its information systems and digital infrastructure, including those critical to Equinor´s operations. Threats to Equinor´s information systems could result in significant financial damage to Equinor. Threats to Equinor´s industrial control systems are not limited by geography as Equinor´s digital infrastructure is accessible globally. Such attacks could result in material losses or loss of life with consequent financial implications.

Crisis management systems risks

Equinor's crisis management systems may prove inadequate
If Equinor does not respond or is perceived not to have responded in an appropriate manner to either an external or internal crisis, or if its plans to carry on or recover operations following a disruption or incident are not effectuated, or not effectuated quickly enough, its business, operations and reputation could be severely affected. Inability to restore or replace critical capacity could prolong the impact of any disruption and could severely affect Equinor's business and operations.

Competition risks

Equinor encounters competition from other companies in all areas of its operations
Equinor may experience increased competition from larger players with stronger financial resources and smaller ones with increased agility and flexibility. 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 is a key competitive advantage in Equinor's industry, and our competitors may be able to invest more in developing or acquiring intellectual property rights to technology, than Equinor may be able to in order to remain competitive. Should Equinor's innovation and digitalization lag behind the industry, its performance could be impeded.

Project development and production operations risks

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 projects may be curtailed, delayed or cancelled because of many reasons, including equipment shortages or failures, natural hazards, unexpected drilling conditions or reservoir characteristics, irregularities in geological formations, accidents, mechanical and technical difficulties, challenges due to new technology or inadequate investment decision basis

This is particularly relevant for Equinor´s activities in deep waters or other harsh environments. Climate change could affect Equinor's operations through restrained water availability, rising sea level, changes in sea currents and increasing extreme weather frequency. In US onshore, low regional prices may render certain areas unprofitable, and the company may curtail production until prices recover. Prolonged low oil and gas prices, combined with high levels of tax and government take in several jurisdictions, could therefore erode the profitability of some of Equinor´s activities.

Strategic objective risks

Equinor may not achieve its strategic objectives 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.
Equinor´s ability to achieve its strategic objectives depends on several factors, including the ability to:

- maintain Equinor´s zero-harm safety culture
- identify suitable opportunities
- negotiate favourable 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 and
- comply with legal regulations

Equinor anticipates significant investments and costs as it cultivates business opportunities in new and existing markets, including, without limitations, unanticipated liabilities, losses or costs related to acquired assets or businesses.

Failure by Equinor to successfully pursue and exploit new business opportunities, including in new energy solutions, could result in financial losses and inhibit value creation.

New projects may have different embedded risks than Equinor's existing portfolio. These and other effects of such acquisitions could result in 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, 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.

Limited transportation infrastructure risks

The profitability of Equinor's oil and gas production in a remote area may be affected by an infrastructure constraint.
Equinor's ability to commercially exploit discovered petroleum resources will depend, among other factors, on infrastructure to transport oil and gas to potential buyers at a commercial price. Oil is transported by vessels, rail or pipelines to refineries, and natural gas by pipeline or vessels (for liquefied natural gas) to processing plants and end users. Equinor may be unsuccessful in its efforts to secure transportation and markets for all its potential production.

International political, social and economic risks

Equinor has international interests located in regions where political, social and economic instability could adversely affect Equinor's business.
Equinor has assets and operations located in diverse regions globally where potentially negative economic, social, and political developments could occur. These political risks and security threats require continuous monitoring. Uncertainty exists around the UK`s exit from the EU and the potential market impact.

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 (cybersecurity) may cause harm to people and disrupt or curtail Equinor's operations and further business opportunities, lead to a decline in production and otherwise adversely affect Equinor's business, its operations´ results and financial condition.

International governmental and regulatory framework risks

Equinor's operations are subject to dynamic political and legal factors in the countries in which it operates.
Equinor has assets in several 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 change. Equinor's 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 companies engaged in exploration and production activities. 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, including retroactive claims
- nationalization or expropriation of Equinor's assets
- unilateral cancellation or modification of Equinor's license or contractual rights
- the renegotiation of contracts
- payment delays and
- 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.

International tax law risks

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.

Failure to comply with anti-corruption, anti-bribery laws and Equinor Code of Conduct risks

Non-compliance with anti-bribery, anti-corruption and other applicable laws, including failure to meet Equinor's ethical requirements, exposes Equinor to legal liability and damage to its reputation, business and shareholder value.
Equinor has activities in countries which present corruption risks and which may have weak legal institutions, lack of control and transparency. In addition, governments play a significant role in the oil and gas 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 any applicable anti-corruption and bribery laws could expose Equinor to investigations from multiple authorities and violations of laws may lead to criminal and/or civil liability with substantial fines. Incidents of non-compliance with applicable anti-corruption and bribery laws and regulations and the Equinor Code of Conduct could be damaging to Equinor's reputation, competitiveness and shareholder value.

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 and safety risks if the partners and contractors fail to fulfil their responsibilities.
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 we do not exercise operational control.

International sanctions and trade restrictions risks

Equinor's activities may be affected by international sanctions and trade restrictions
Equinor, like other major international energy companies, has a diverse portfolio of projects, which may 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 often complex and changes can come about on short notice and be hard to predict. For example, in 2018 new trade restrictions were introduced in relation to Nicaragua where Equinor has activities. While this remains the case, Equinor's business portfolio is evolving and will constantly be subject to review. Accordingly, Equinor could in the future 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, there can be no assurance that no Equinor entity, officer, director, employee or agent is not in violation of such laws. Any such violation of applicable laws could result in substantial civil and/or criminal penalties and could materially adversely affect Equinor's business and results of operations or financial condition.

Legal and regulatory risk

Health, safety and environmental laws and regulations risks

Compliance with health, safety and environmental laws and regulations that apply to Equinor's operations could materially increase Equinor's costs. The enactment of or changes to such laws and regulations in the future is uncertain.
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, including:

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

Equinor`s activity is 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.

Compliance with laws, regulations and obligations relating to climate change and other environmental 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 legal and regulatory risks, see the risks described under the heading "Transition to a lower carbon economy".

Equinor's investments in US onshore producing assets will be 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. Equinor supports Federal regulation of methane emissions and aims to operate in compliance with all current requirements. To the extent new or revised regulations impose additional compliance or data gathering requirements, Equinor could incur higher operating costs. Equinor has also joined voluntary emission reduction programs (One Future and API's Environmental Partnership) and implemented a climate roadmap to reduce CO2 and methane emissions.

Supervision, regulatory reviews, and financial reporting risks

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, and labour and employment practices. Violations of the applicable laws and regulations may lead to legal liability, substantial fines and other sanctions for noncompliance.

Equinor Energy AS parent company, Equinor ASA, is listed on both the Oslo Børs and New York Stock Exchange (NYSE), and is registered with the SEC. Equinor ASA 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.

The Norwegian Petroleum Supervisor (PSA) 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 as well as petroleum-related plants on land in Norway. Equinor is exposed to supervision from PSA, and as its business grows internationally other regulators, and such supervision could result in audit reports, orders and investigations.

The EU-wide quantity of carbon allowances issued each year under the Emission Trading Scheme (ETS) for greenhouse gas emission allowances began to decrease in a linear manner in 2013. The ETS can have a positive or negative impact on Equinor, depending on the price of carbon, which will consequently have an impact on the development of gas-fired power generation in the EU. Until now, the carbon price has been too low to replace coal with gas fired generation capacity. This effect has been worsened by heavy subsidizing of renewables which has caused gas-fired power plants to shut down. Current EU climate and energy policies do not address this problem, but there is a tendency towards more market-based subsidies in the new guidelines on environment and energy aid.

Political and economic policies of the Norwegian State could affect Equinor´s business

The Norwegian State plays an active role in the management of NCS hydrocarbon resources. In addition to its direct participation in petroleum activities through the State's direct financial interest (SDFI) and its indirect impact through legislation, such as tax and environmental laws and regulations, the Norwegian State, among other things, awards licences for exploration, production and transportation, approves exploration and development projects and applications for production rates for individual fields and may, if important public interests are at stake, also instruct Equinor and other oil companies to reduce petroleum production. Furthermore, in the production licenses in which the SDFI holds an interest, the Norwegian State has the power to direct petroleum licenses´ actions in certain circumstances.

If the Norwegian State were to take additional action under its activities on the NCS or to change laws, regulations, policies or practices relating to the oil and gas industry, Equinor's NCS exploration, development and production activities and the results of its operations could be affected.

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.

Equinor´s shareholder alignment risks

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 decisions relating to the NCS.
The Norwegian State has resolved that the Norwegian State's shares in Equinor and the SDFI's interest in NCS licenses 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 development and 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 2018 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 corporate assembly is responsible for electing Equinor's board of directors. It also makes recommendations to the general meeting concerning the board of directors' proposals relating to the company's annual accounts, balance sheet, allocation of profit and coverage of loss. The interests of the Norwegian State in deciding these and other matters and the factors it considers when casting its votes, especially under 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

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

In order 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
- risk is managed in compliance with Equinor's requirements with a strong focus on avoiding HSE and integrity-related incidents (such as accidents, fraud and corruption).

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 corporate level to ensure optimal solutions. This includes 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 insurable and insured by 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 make 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 ASA and its subsidiaries allows for comparing risk on a like-for-like basis and support 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, which is headed by the chief financial officer and includes representatives from the business areas, is responsible for defining, developing and reviewing Equinor's risk policies and methodology. The chief financial officer, assisted by the committee, is also responsible for overseeing and developing Equinor's Enterprise Risk Management and proposing appropriate measures to adjust risk.

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.

An increase in the oil price throughout the first nine months of 2018 was followed by a steep decrease in the fourth quarter, closing the year at USD 54.1 per barrel. Geopolitical shifts, challenges in liquids resource replenishments, market cyclicality, 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 sustainability

Equinor Energy AS´ ambition is to be an industry leader in safety, security and carbon efficiency.

Safety and security
Equinor Energy AS´ ambition is to ensure safe and secure operations that protect people, the environment, communities and assets. The company´s approach to safety and security entails preventing accidents and incidents, avoiding oil spills, ensuring a healthy work environment and developing a strong security culture.

Equinor Energy AS is committed to providing a safe and secure environment for everyone working at our facilities and job sites.

Serious incident frequency (SIF) is used as a key performance indicator to monitor safety performance. This indicator (number of serious incidents, including near misses, per million hours worked) combines actual consequences of incidents and the potential for incidents to develop into serious or major accidents. The SIF in 2018 was 0.7 incidents per million hours worked compared to 0.9 incidents per million hours worked in 2017.

During 2018, we had no serious incidents with major accident potential.

Total recordable injuries per million hours worked (TRIF) decreased from 4.8 in 2017 to 4.3 in 2018.

In 2018, we experienced no accidents with fatalities.

For accidental oil spills, the total oil spill volume increased from 9 m^3 in 2017 to 35 m^3 in 2018. The largest spill in 2018, of 13 m^3, was from the Åsgard B platform.

Preventing oil and gas leakages is important to avoid major accidents. All leakages are subject to formal investigation in order to capture learning. The total number of oil and gas leakages ≥0.1kg per sec decreased from 6 in 2017 to 4 in 2018. In 2018, none of these oil and gas leakages ignited.

No security incidents with major consequences for Equinor Energy AS were recorded in 2018

Greenhouse gas emissions
In 2017, Equinor ASA set a target at group level to achieve carbon emission reduction measures equivalent to 3 million tonnes of CO_2 annually by 2030 (relative to 2017)[1], of which Equinor Energy AS is expected to deliver a major share of the reductions. Since 2017, Equinor Energy has delivered around 0.5 million tonnes of CO_2 emission reductions, of which 241,000 tonnes were achieved in 2018.

Direct greenhouse gas emissions decreased from 10.8 thousand tonnes CO_2 in 2017 to 10.5 thousand tonnes CO_2 in 2018[2]. Greenhouse gas emissions include carbon dioxide (CO_2) and methane (CH_4), where CO_2 constitutes the largest part (10.2 million tonnes in 2018 compared to 10.5 million tonnes in 2017). Methane (CH_4) emissions remained stable at 12 thousand tonnes in 2018.

The carbon intensity for Equinor Energy AS´ offshore assets (upstream carbon intensity) remained stable at 8 kg CO_2 per boe in 2018. This is significantly lower than the industry average of 18 kg CO_2 per boe[3].

Environmental impact

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[1] This implies that the annual CO_2 emissions will be 3 million tonnes less than they would have been, had no reduction measures been implemented.
[2] All environmental data are reported based on operational control boundary (i.e. total emissions from operated assets).
[3] 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 2017 data.

Equinor Energy AS is committed to using resources efficiently and strives to apply high standards in dealing with waste management, emissions to air and impact on ecosystems. Precautionary rules and regulations are followed to minimise potential negative effects of the company's activities.

Nitrogen dioxide emissions were 34 thousand tonnes in 2018, up from 33 thousand tonnes in 2017. The main contributor to the increase was higher diesel consumption due to increased drilling activity and preparation for start-up at Mariner, Johan Sverdrup and Aasta Hansteen. Sulphur dioxide emissions were stable at 0.3 thousand tonnes in 2018. Total emissions of non-methane volatile organic compounds were 30 thousand tonnes in 2018.

In 2018, the total volume of waste was 200 thousand tonnes compared to 300 thousand tonnes in 2017. The main contributor to the decrease in generated waste was a new routine for internal remediation of process water.

The hazardous waste recovery rate in 2018 was 77%, down from 84% in 2017. The main contributor to the decrease in recovery rate is the above-mentioned process of internal process water treatment. In addition, large volumes of cuttings were deposited at landfill from Johan Sverdrup, Aasta Hansteen and other fields and exploration wells drilling with oil-based mud. The non-hazardous waste recovery rate was 91% in 2018 and 90% in 2017. Regular discharges of oil to water were 1.1 thousand tonnes in 2018 compared to 1.2 thousand tonnes in 2017.

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
Equinor Energy AS seeks to conduct its business in a way that is consistent with the UN Guiding Principles on Business and Human Rights (the UN Guiding Principles), the ten UN Global Compact principles and the Voluntary Principles on Security and Human Rights. Equinor Energy AS is committed to respecting internationally recognised human rights as laid out in the International Bill of Human Rights, the International Labour Organization's 1998 Declaration on Fundamental Rights and Principles at Work, and applicable standards of international humanitarian law.

Human rights aspects are integrated into relevant internal management processes, tools and training. On-going activities, business relationships and new business opportunities are assessed for potential human rights impacts and aspects, following a risk-based approach.

Transparency, ethics and anti-corruption
Equinor Energy AS believes that responsible and ethical behaviour is a prerequisite for sustainable business. The company is opposed to all forms of corruption, including facilitation payments. A company-wide anti-corruption compliance programme has been established to ensure implementation of our zero-tolerance policy. This entails mandatory procedures designed to comply with applicable laws and regulations. Compliance officers, who are responsible for ensuring that ethics and anti-corruption considerations are integrated into business activities, constitute an important part of the programme.

Equinor Energy AS seeks to work with others who share the company's commitment to ethics and compliance. Risk is managed through knowledge of suppliers, business partners and markets. Before entering into a new business relationship, or extending an existing one, the relationship has to satisfy Equinor Energy AS' integrity due diligence requirements.

All Equinor employees have to confirm annually, electronically, that they understand and will comply with the company's Code of Conduct. Disciplinary measures are in place for anyone working for Equinor Energy AS who does not comply with the code. This may entail termination of their contract. The Code of Conduct requires reporting of suspected misconduct. Concerns can be reported through internal channels or through the publicly available Equinor Ethics Helpline, which ensures confidentiality.

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 266 million in 2018, compared to USD 252 million in 2017.

Board developments

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

The board held four meetings in 2018, in addition to eight extraordinary meetings. The average meeting attendance at these board meetings was 92%.

STAVANGER, 22 MARCH 2019

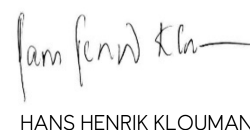
THE BOARD OF DIRECTORS OF EQUINOR ENERGY AS

LARS CHRISTIAN BACHER
CHAIR

KJELL BYBERG
MANAGING DIRECTOR

CECILIE RØNNING

GEIR AALHUS



HANS HENRIK KLOUMAN

Financial statements

STATEMENT OF INCOME EQUINOR ENERGY AS

(in USD million)	Note	Full year 2018	2017
Revenues	5	24,799	20,568
Net income/(loss) from subsidiaries and other equity accounted companies	13	1,065	(400)
Other income	3	566	12
Total revenues and other income		26,430	20,179
Purchases [net of inventory variation]		(680)	(582)
Operating expenses		(4,403)	(4,172)
Selling, general and administrative expenses		(86)	(87)
Depreciation, amortisation and net impairment losses	11, 12	(4,537)	(3,998)
Exploration expenses		(431)	(379)
Net operating income/(loss)		16,292	10,961
Net financial items	9	(274)	(378)
Income/(loss) before tax		16,018	10,583
Income tax	10	(10,719)	(8,094)
Net income/(loss)		5,299	2,489

STATEMENT OF COMPREHENSIVE INCOME EQUINOR ENERGY AS

(in USD million)	Note	Full year 2018	2017
Net income/(loss)		5,299	2,489
Currency translation adjustments		(386)	411
Net gains/(losses) from available for sale financial assets		64	(64)
Items that may subsequently be reclassified to the Statement of income		(322)	347
Other comprehensive income/(loss)		(322)	347
Total comprehensive income/(loss)		4,977	2,836
Attributable to the equity holders of the company		4,977	2,836

BALANCE SHEET EQUINOR ENERGY AS

(in USD million)	Note	At 31 December 2018	2017
ASSETS			
Property, plant and equipment	11	32,298	32,155
Intangible assets	12	1,011	801
Investments in subsidiaries and other equity accounted companies	13	23,371	21,285
Derivative financial instruments	4	212	215
Prepayments and financial receivables		169	131
Total non-current assets		57,061	54,587
Inventories		159	131
Trade and other receivables	15	753	784
Receivables from group companies	14	6,529	2,615
Derivative financial instruments	4	42	36
Total current assets		7,483	3,566
Total assets		64,545	58,153
EQUITY AND LIABILITIES			
Share capital		5,530	5,527
Additional paid-in capital		9,505	8,785
Reserves for unrealised gains		62	80
Retained earnings		14,777	9,257
Other reserves		(3,466)	(3,144)
Total equity	16	26,409	20,505
Deferred tax liabilities	10	8,422	7,431
Liabilities to group companies	14	13,847	14,682
Provisions	17	8,611	8,713
Total non-current liabilities		30,880	30,827
Trade, other payables and provisions	18	2,188	2,199
Current tax payable	10	4,323	3,681
Liabilities to group companies	14	744	941
Total current liabilities		7,256	6,821
Total liabilities		38,135	37,648
Total equity and liabilities		64,545	58,153

STATEMENT OF CASH FLOWS EQUINOR ENERGY AS

(in USD million)	Note	Full year 2018	2017 (restated*)
Income/(loss) before tax		16,018	10,583
Depreciation, amortisation and net impairment losses	11, 12	4,537	3,998
Exploration expenditures written off		65	14
(Gains) losses on foreign currency transactions and balances		(39)	(98)
(Gains) losses on sales of assets and businesses	3	(489)	2
(Increase) decrease in other items related to operating activities		532	870
(Increase) decrease in net derivative financial instruments		72	(150)
Interest received		89	96
Interest paid		(117)	(258)
Cash flows provided by operating activities before taxes paid and working capital items		20,666	15,057
Taxes paid		(8,287)	(5,090)
(Increase) decrease in working capital		41	(461)
Cash flows provided by operating activities		12,421	9,506
Cash used in business combinations		(1,541)	0
Capital expenditures and investments	11, 12, 13	(7,323)	(9,318)
(Increase) decrease in financial investments		0	75
(Increase) decrease in other items interest bearing		(181)	1
Proceeds from sale of assets and businesses and capital contribution received	3	765	172
Cash flows provided by (used in) investing activities		(8,281)	(9,070)
Increase (decrease) in financial receivables and liabilities to/from Equinor group companies[1)]	14	(4,140)	(478)
Cash flows provided by (used in) financing activities		(4,140)	(478)
Net increase (decrease) in cash and cash equivalents		(0)	(42)
Effect of exchange rate changes on cash and cash equivalents		(0)	23
Cash and cash equivalents at the beginning of the period		27	46
Cash and cash equivalents at the end of the period[2)]		27	27

* Related to a change in accounting policies, see note 23 Changes in accounting policies for more information.

1) Including deposits in Equinor group's internal bank arrangement.
2) Cash and cash equivalents represents 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 and basis of presentation

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.

Following Statoil ASA changed its name to Equinor ASA, Statoil Petroleum AS changed its name to Equinor Energy AS on 16 May 2018.

Equinor Energy AS business consists principally of the exploration, production and transportation of petroleum and petroleum-derived products. 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 2018. The Consolidated financial statements can be obtained by contacting Equinor ASA, Forusbeen 50, 4035 Stavanger or from the website, www.equinor.com.

The functional currency of Equinor Energy AS is Norwegian Krone (NOK), based on an evaluation of the company's primary environment and related cash flows, while its presentation currency is United States dollars (USD). The USD to NOK rates of exchange employed at year-end 2018 and 2017 are 8.69 and 8.21, respectively.

2 Significant accounting policies

Statement of compliance
The financial statements of Equinor Energy AS ("the company") 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.

With effect from 1 January 2018, Equinor Energy AS implemented IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. As of the same date, Equinor Energy AS voluntarily changed its policy for recognition of revenue from the production of oil and gas properties in which Equinor Energy AS shares an interest with other companies, as well as its policy for presentation of certain elements related to derivatives, non-cash currency effects and working capital items in the statement of cash flows. Reference is made to Note 23 Changes in accounting policies for further information about these policy changes.

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. The subtotals and totals in some of the tables may not equal the sum of the amounts shown 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.

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 (licenses)

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 to similar arrangements (licenses) 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). 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 exchange rate at the balance sheet date. Revenues and expenses are translated using the foreign 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).

Revenue from contracts with customers
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.

Other revenue
Revenues from the production of oil and gas properties in which Equinor shares an interest with other companies are recognised on the basis of Equinor's ownership in producing fields. Adjustments for imbalances (overlift or underlift) between oil and gas production and sales are presented within Revenues and is reflected at fair value in the balance sheet as short-term receivables or payables.

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 best estimate of the probable amount for 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.

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.

For exploration and evaluation asset acquisitions (farm-in arrangements) in which the company has made arrangements to fund a portion of the selling partners' (farmor's) 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.

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

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 de-recognition 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
Leases for which the company assumes substantially all the risks and rewards of the ownership are reflected as finance leases. When an asset leased by a joint operation or similar arrangement (license) to which Equinor is a party qualifies as a financial lease, or when Equinor as an operator directly on behalf of a joint arrangement or similar arrangement, Equinor reflects its proportionate share of the leased asset and related obligations. Financial leases are recognised within Property, plant and equipment, with corresponding entry within non-current liabilities. All other leases are classified as operating leases and the costs are charged to the relevant operating expense related caption on a straight line basis over the lease term, unless another basis is more representative of the benefits of the lease to the company.

The company distinguishes between lease and capacity contracts. Lease contracts provide the right to use a specific asset for a period of time, while capacity contracts confer on the company the right to and the obligation to pay for certain volume capacity availability related to transport, terminal use, storage etc. Such capacity contracts that do not involve specified single assets or that do not involve substantially all the capacity of an undivided interest in a specific asset are not considered by the company to qualify as leases for accounting purposes. Capacity payments are reflected as Operating expenses in the statement of income in the period for which the capacity contractually is available to the company.

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 and the amount recognised for any non-controlling interest 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.

Financial assets
Trade and other receivables are carried at the original invoice amount, less a provision for doubtful receivables, which is made when there is objective evidence that the company will be unable to recover the balances in full.

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.

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 are reflected according to the weighted average method.

Derivative financial instruments
Commodity-based derivatives are valued at fair market value and the resulting gains and losses are recognised in the statement of income.
Equinor uses 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.

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.

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 division 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 corporate management on a regular basis and updated at least annually. 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 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.

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 cost and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs as well as discount or premium on settlement.

Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date, or if these are held for the purpose of being traded.

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 payable group contributions 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. 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) costs 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 reasonable 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. 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 the company'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 cost 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
Preparation of the financial statements requires the company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingencies. Actual results may ultimately differ from the estimates and assumptions used.

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.

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 regulations S-K and S-X, and the Financial Accounting Standards Board (FASB) requirements for supplemental oil and gas disclosures. 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.

Expected oil and gas reserves, which differ from proved reserves, have been estimated by internal experts on the basis of industry standards and are used for impairment testing purposes and for calculation of ARO.

3 Acquisitions and disposals

Divestment of the interests in the discoveries on the Norwegian continental shelf
In December 2018 Equinor Energy AS closed an agreement with Aker BP to sell its 77.8% operated interest in the King Lear discovery on the Norwegian continental shelf (NCS) shelf for a total consideration of USD 250 million and an agreement with PGNiG to sell its non-operated interests in the Tommeliten discovery on the NCS for a total consideration of USD 220 million. A total gain of USD 449 million has been presented in the line item Other income in the Statement of income of Equinor Energy AS. The transaction was tax exempt under the Norwegian petroleum tax legislation.

Swap of the interests in the Norwegian Sea and the North Sea region of the Norwegian continental shelf
In December 2018 Equinor Energy AS and Faroe Petroleum have agreed a number of transactions in the Norwegian Sea and the North Sea region of the NCS. These transactions are considered a balanced swap when it comes to value with no cash consideration. The effective dates of the transactions are 1 January 2019 with closing subject to governmental approval. The closing is expected within the first half of 2019.

Acquisition of interests in Martin Linge field and Garantiana discovery
In March 2018 Equinor and Total closed an agreement to acquire Total's equity stakes in the Martin Linge field (51%) and the Garantiana discovery (40%) on the NCS. Through this transaction Equinor increased the ownership share in the Martin Linge field from 19% to 70%. Equinor has paid Total a consideration of USD 1,541 million and has taken over the operatorships. The assets and liabilities related to the acquired portion of Martin Linge and Garantiana have been reflected in accordance with the principles of IFRS 3 Business Combinations. The acquisition resulted in an increase of Equinor's property, plant and equipment of USD 1,418 million, intangible assets of USD 116 million, goodwill of USD 265 million, deferred tax liabilities of USD 265 million and other assets of USD 7 million. The partners have joint control and Equinor continues to account for its interest on a pro-rata basis using Equinor's new ownership share.

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 all activities using a holistic risk approach 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 natural gas prices. The commodity based derivative contracts consist of over-the-counter forward contracts, market swaps and options related to natural gas. The term for natural gas derivatives is usually three years or less. Equinor's bi-lateral gas sales portfolio is exposed to various price indices and uses derivatives to manage the net gas sales exposure towards a diversified combination of long and short dated 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 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 measures 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 2018 the derivative financial instruments within third level has a net increase in the fair value of USD 2 million. USD 54 million is recognised in the statement of income related to changes in fair value. Related to the same earn-out agreements, USD 36 million has been fully realised as the underlying volumes have been delivered during 2018.

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 2018 at 30%, and at the end of 2017 at 20%, are assumed to represent a reasonably possible change based on the duration of the derivatives.

	2018		2017	
(in USD million)	**- 30% sensitivity**	**30% sensitivity**	**- 20% sensitivity**	**20% sensitivity**
At 31 December				
Natural gas net gains (losses)	765	(764)	533	(533)

5 Revenues

(in USD million)	Full year 2018	2017
Revenues third party	11,726	9,839
Intercompany revenues	13,073	10,729
Revenues	24,799	20,568

Equinor Energy AS sells most of its 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.

6 Remuneration

The company has no employees. No salary or other remuneration has been paid to the chief executive officer (CEO) in 2018 or 2017. The CEO is employed and paid by Equinor ASA.

No compensation was paid to the board of directors in 2018 or 2017.

7 Auditor's remuneration

(in USD million, excluding VAT)	Full year 2018	2017
Audit fee	0.4	0.4
Audit related fee	0.4	0.4
Total	0.8	0.7

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 0.9 million and USD 0.8 million in 2018 and 2017, respectively.

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

8 Research and development expenditures

Research and development (R&D) expenditures amounted to USD 266 million and USD 252 million in 2018 and 2017, respectively. R&D expenditures are partly financed by partners of Equinor Energy AS operated licenses. Equinor Energy AS share of the expenditures has mainly been recognised as operating expenses in the statement of income.

9 Financial items

(in USD million)	Full year 2018	2017
Net foreign exchange gains (losses)	39	98
Dividends received	1	0
Interest income from group companies	79	76
Interest income current financial assets and other financial items	(1)	41
Interest income and other financial items	79	118
Capitalised borrowing costs	322	230
Accretion expense asset retirement obligations	(311)	(287)
Interest expense to group companies	(433)	(475)
Interest expense current financial liabilities and other finance expenses	29	(61)
Interest expenses and other finance expenses	(393)	(594)
Net financial items	(274)	(378)

10 Income taxes

Income tax

(in USD million)	Full year 2018	2017
Current taxes	(9,307)	(6,741)
Change in deferred tax	(1,412)	(1,353)
Income tax	(10,719)	(8,094)
Uplift credit for the year	(1,434)	(1,451)

Reconciliation of Norwegian statutory tax rate to effective tax rate

(in USD million)	Full year 2018	2017
Income/(loss) before tax	16,018	10,583
Calculated income taxes at:		
Statutory tax rate	(3,684)	(2,540)
Petroleum surtax at statutory tax rate	(8,810)	(5,715)
Tax effect of:		
Uplift	736	784
Tax result subject to statutory tax rate	751	(23)
Permanent differences acquisitions and disposals on the NCS	382	(0)
Permanent differences equity method	(183)	(340)
Permanent differences other	292	78
Income tax prior years	(80)	(197)
Other	(123)	(141)
Total	(10,719)	(8,094)
Effective tax rate	66.9 %	76.5 %

Statutory tax rate is 23% for 2018 and 24% for 2017.
Petroleum surtax at statutory tax rate is 55% for 2018 and 54% in 2017.

When computing the petroleum tax of 55% (56% from 2019) on income from the Norwegian continental shelf, a tax-free allowance, or uplift, is granted at a rate of 5.3% per year for investments made in 2018 (5.2% per year from 2019). For investments made in 2017, the rate is 5.4% and for investments made between 2015 to 2016 the rate is 5.5%. Transitional rules apply for projects that have submitted a plan for development and operation to the Ministry of Oil and Energy prior to 5 May 2013. For these investments the rate is 7.5% per year. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditure is incurred. Unused uplift may be carried forward indefinitely. At year end 2018 and 2017 unrecognised future uplift credits related to capitalised cost amounted to USD 1,780 million and USD 2,003 million respectively.

Significant components of deferred tax assets and liabilities were as follows:

(in USD million)	At 31 December 2018	2017 (restated)
Deferred tax assets on		
Other items	158	319
Asset retirement obligations	6,553	6,612
Total deferred tax assets	6,711	6,931
Deferred tax liabilities on		
Derivatives	96	27
Property, plant and equipment	13,358	12,443
Capitalised exploration expenditures and capitalised interest	1,680	1,893
Total deferred tax liabilities	15,133	14,362
Net deferred tax liabilities	8,422	7,431

In the 2017 annual report, other items were presented in both deferred tax assets and deferred tax liabilities. For 2018, those items have been summarised and presented as other items in deferred tax assets only. As a result, the 2017 column has been amended to reflect this change.

The movement in deferred income tax

(in USD million)	2018	2017
Deferred income tax liability at 1 January	7,431	6,139
Charged to the statement of income	1,412	1,353
Translation differences, acquisition and divestment	(421)	(61)
Deferred income tax liabilities at 31 December	8,422	7,431

11 Property, plant and equipment

(in USD million)	Machinery, equipment and transportation equipment	Production plants oil and gas, including pipelines	Refining and manufactoring plants	Buildings and land	Assets under development	Total
Cost at 31 December 2017	203	92,777	408	36	8,508	101,933
Additions through business combinations	0	0	0	48	1,370	1,418
Additions and transfers	7	5,708	7	4	(511)	5,215
Disposals at cost	0	(5)	0	(0)	(7)	(12)
Effect of changes in foreign exchange	(12)	(5,433)	(23)	(7)	(644)	(6,119)
Cost at 31 December 2018	198	93,047	392	81	8,716	102,435
Accumulated depreciation and impairment losses at 31 December 2017	(183)	(69,176)	(326)	(2)	(92)	(69,779)
Depreciation	(8)	(5,119)	(12)	(0)	0	(5,139)
Reversal of impairment losses	0	604	0	0	0	604
Accumulated depreciation and impairment on disposed assets	0	4	0	0	7	11
Effect of changes in foreign exchange	11	4,132	19	0	5	4,167
Accumulated depreciation and impairment losses at 31 December 2018	(180)	(69,554)	(319)	(2)	(80)	(70,136)
Carrying amount at 31 December 2018	18	23,493	73	79	8,635	32,298
Estimated useful lives (years)	3 - 10	UoP[1)]	15 - 20	20 - 33[2)]		

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

2) Land is not depreciated.

For additions through business combinations, see note 3 Acquisitions and disposals.

Impairment

In 2018 net impairment reversals of USD 604 million were recognised mainly due to change in long term exchange rate assumptions. In 2017 net impairment reversal of USD 905 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 (FVLCOD) 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.

USD million	2018		2017	
Impairment method	Carrying amount after impairment[1]	Net impairment loss (reversal)	Carrying amount after impairment[1]	Net impairment loss (reversal)
At 31 December				
ViU	1,966	(201)	2,169	(826)
FVLCOD	1,232	(402)	1,507	(79)

1) Carrying amount relates to assets impaired/reversed.

The recoverable amount of assets tested for impairment was 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. Short term commodity prices are forecasted by using observable forward prices for 2018 and a linear projection towards the 2022 internal forecast. The base discount rate for VIU calculations is 6.0% real after tax. The discount rate is derived from Equinor's weighted average cost of capital. A derived pre-tax discount rate would generally be in the range of 5-10%, depending on asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. For certain assets a pre-tax discount rate could be outside this range, mainly due to special tax elements (for example permanent differences) affecting the pre-tax equivalent.

The price assumptions used for impairment calculations were as follows (prices used in 2017 impairment calculations for the respective years are indicated in brackets):

Year (Prices in real terms)[1]	2019		2020		2025		2030	
Brent Blend – USD/bbl	62	(66)	66	(70)	77	(80)	80	(84)
NBP - USD/mmbtu	7.7	(6.7)	7.4	(6.8)	8.0	(8.4)	8.0	(8.4)
Henry Hub – USD/mmBtu	3.1	(3.4)	3.2	(3.7)	4.0	(4.2)	4.0	(4.2)

1) Basis year 2018.

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. If a decline in commodity price forecasts over the lifetime of the assets were 20%, considered to represent a reasonably possible change, the impairment amount to be recognised could illustratively be in the region of USD 2 billion before tax effects. This illustrative impairment sensitivity assumes no changes to input factors other than prices; however, a price reduction of 20% is likely to result in changes in business plans as well as other factors used when estimating an asset´s recoverable amount. Changes in such input factors would likely significantly reduce the actual impairment amount compared to the illustrative sensitivity above. Changes that could be expected would include a reduction in the cost level in the oil and gas industry as well as offsetting currency effects, both of which have historically occurred following significant changes in commodity prices. The illustrative sensitivity is 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. A significant and prolonged reduction in oil and gas prices would also result in mitigating actions by Equinor and its license 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 expenditure	Goodwill	Other	Total
Cost at 31 December 2017	798	0	6	804
Additions through business combinations	116	265	0	381
Additions	194	0	16	210
Disposals at cost	(237)	0	0	(237)
Transfers	5	0	0	5
Expensed exploration expenditures previously capitalised	(65)	0	0	(65)
Effect of changes in foreign exchange	(55)	(26)	(1)	(82)
Cost at 31 December 2018	756	239	21	1,016
Accumulated amortisation and impairment losses at 31 December 2017			(3)	(3)
Amortisation and impairments for the year			(2)	(2)
Accumulated amortisation and impairment losses at 31 December 2018			(5)	(5)
Carrying amount at 31 December 2018	756	239	16	1,011

For additions through business combinations, see note 3 Acquisitions and disposals.

13 Investments in subsidiaries and other equity accounted companies

(in USD million)	2018	2017
Investments at 1 January	21,285	17,789
Net income/(loss) from subsidiaries and other equity accounted companies	1,065	(400)
Increase/(decrease) in paid-in capital	2,608	3,804
Distributions	(1,431)	(208)
Net gains/(losses) from available for sale financial assets	64	(64)
Currency translation adjustments	(220)	364
Investments at 31 December	23,371	21,285

The closing balance of investments at 31 December 2018 of USD 23,371 million consists of investments in subsidiaries amounting to USD 23,366 million and investments in other equity accounted companies amounting to USD 5 million. In 2017, the amounts were USD 21,279 million and USD 6 million, respectively.

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

In 2018 net income from subsidiaries and other equity accounted companies was impacted by net impairment related to property, plant and equipment and exploration assets of USD 544 million after tax. The net impairment was caused by negative change in the long term price assumptions and negative changes in reserve estimates partially offset by improved production profile and various operational improvements.

In 2017 net income from subsidiaries and other equity accounted companies was impacted by net impairment reversal related to property, plant and equipment and exploration assets of USD 228 million after tax. The reversals are primarily resulting from operational improvements and new tax legislation in US while the impairments are due to negative operation development in other assets.

The acquisition cost for investments in subsidiaries and other equity accounted companies are USD 37,514 million in 2018 and USD 37,340 million in 2017.

The following table shows significant subsidiaries directly held by Equinor Energy AS as of December 2018

Name	in %	Country of incorporation
Equinor Angola AS	100	Norway
Equinor Dezassete AS	100	Norway
Equinor Energy Brazil AS	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 Oil & Gas Mozambique AS	100	Norway
Equinor Quatro AS	100	Norway
Equinor US Holdings Inc.	100	USA
Statoil Sverige Kharyaga AB	100	Sweden

14 Financial assets and liabilities

Non-current liabilities to group companies

	At 31 December	
(in USD million)	2018	2017
Interest bearing liabilities to group companies	13,811	14,625
Non-interest bearing liabilities to group companies	36	57
Liabilities to group companies	13,847	14,682

The total amount of credit facility given from Equinor ASA is NOK 120 billion (USD 13,811 million) at 31 December 2018 and NOK 120 billion (USD 14,625 million) at 31 December 2017. In 2018 and 2017 the facility is fully utilised. Of the total interest bearing non-current liabilities at 31 December 2018, USD 6,330 million (NOK 55 billion) is due within the next five years, but there is no current portion. Remaining amounts fall due beyond five years.

Current receivables from subsidiaries and other equity accounted companies include positive internal bank balances of USD 4.1 billion at 31 December 2018. The corresponding amount was USD 117 million at 31 December 2017.

15 Trade and other receivables

	At 31 December	
(in USD million)	2018	2017
Trade receivables	43	44
Other receivables	710	739
Trade and other receivables	753	784

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

16 Equity and shareholders

(in USD million)	2018	2017
Shareholders' equity at 1 January	20,505	17,674
Net income/(loss)	5,299	2,489
Foreign currency translation adjustments[1]	(386)	411
Net gains/(losses) from available for sale financial assets	64	(64)
Additions[2]	876	0
Group contributions	51	(3)
Other	0	(1)
Shareholders' equity at 31 December	26,409	20,505

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 2018 was USD (3.5) billion and USD (3.1) billion as at 31 December 2017.

2) Increase in equity is mainly due to equity contribution in-kind of Brazilian subsidiaries of USD 732 million and reclassification of insurance settlements related to previous years of USD 176 million.

17 Provisions

(in USD million)	Asset retirement obligations	Other provisions	Total
Non-current portion at 31 December 2017	8,462	251	8,713
Current portion at 31 December 2017	15	15	31
Provisions at 31 December 2017	8,477	267	8,744
New or increased provisions	843	32	876
Decrease in estimates	(170)	(23)	(193)
Amounts charged against provisions	(15)	(18)	(33)
Effects of change in the discount rate	(562)	26	(536)
Accretion expenses	311	0	311
Reclassification and transfer	0	4	4
Currency translation	(483)	(15)	(498)
Provisions at 31 December 2018	8,401	274	8,675
Current portion at 31 December 2018	55	9	64
Non-current portion at 31 December 2018	8,346	264	8,611

Expected timing of cash outflows

(in USD million)	Asset retirement obligations	Other provisions	Total
2019 - 2023	462	82	544
2024 - 2028	1,001	2	1,003
2029 - 2033	2,620	0	2,620
2034 - 2038	2,279	0	2,279
Thereafter	2,040	190	2,229
At 31 December 2018	8,401	274	8,675

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.
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 2018	2017
Trade payables	159	155
Joint venture payables	1,514	1,701
Other non-trade payables, accrued expenses and provisions	515	343
Trade, other payables and provisions	2,188	2,199

19 Leases

Equinor Energy AS leases certain assets, notably vessels and drilling rigs. Lease contracts committed by a license are presented net, based on Equinor's participation interest in the respective licenses. Lease contracts for helicopters, supply vessels and other assets used to serve a group of licenses are presented net based on Equinor's average participation interests in these licenses.

Equinor Energy AS has certain operating lease contracts for drilling rigs as of 31 December 2018. The remaining significant contracts' terms range from one months to six years. Certain contracts contain renewal options. Rig lease agreements are for the most part based on fixed day rates. Certain rigs have been assigned in whole or for part of the lease term mainly to Equinor Energy AS operated licenses on the Norwegian continental shelf. These leases are shown net as operating leases in the table below.

In 2018, net rental expenditures were USD 1,117 million (USD 1,079 million in 2017). There are no significant rig cancellation fees expensed in 2018 (none in 2017). No material contingent rent payments have been expensed in 2018 or 2017.

Certain contracts contain renewal options. The execution of such options will depend on future market development and business needs at the time when such options are to be exercised.

The table below shows future minimum lease payments under non-cancellable leases at 31 December 2018:

(in USD million)	Operating leases
2019	1,003
2020	597
2021	513
2022	516
2023	398
2024-2028	382
2029-2033	58
Thereafter	0
Total future minimum lease payments	3,468

20 Other commitments, contingent liabilities and contingent assets

Contractual commitments
Equinor Energy AS had contractual commitments of USD 3,634 million at 31 December 2018. The contractual commitments reflect Equinor Energy AS share and comprise construction and acquisition of property, plant and equipment.

As a condition for being awarded oil and gas exploration and production licences, participants may be committed to drill a certain number of wells. At the end of 2018, Equinor Energy AS was committed to participate in 16 wells with an average ownership interest of approximately 36%. Equinor Energy AS share of estimated expenditures to drill these wells amounts to USD 174 million. Additional wells that Equinor Energy AS 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 the Group to entities accounted for using the equity method are included gross in the tables below. For assets (e.g. pipelines) that the Group accounts for by recognising its share of assets, liabilities, income and expenses (capacity costs) 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. gross commitment less Equinor Energy AS ownership share).

Nominal minimum commitments at 31 December 2018:

(in USD million)	
2019	997
2020	933
2021	802
2022	651
2023	596
Thereafter	2,697
Total	6,675

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 2018 the carrying value of debts for which Equinor Energy AS is the co-obligor and guarantor, mainly for Equinor ASA, are equivalent to USD 2,195 million and USD 22,017 million, respectively.

A parent company guarantee was issued related to the Martin Linge transaction covering third party obligations associated with the financing of license asset infrastructure. The face value of the guarantee is USD 196 million and will expire end of May 2019.

Contingencies
Some long-term gas sales agreements contain price review clauses, which in certain cases lead to claims subject to arbitration. The range of exposure related to ongoing arbitration broadened in the second quarter of 2018, and the exposure for Equinor has been estimated to an amount equivalent to approximately USD 1.2 billion for gas delivered prior to year-end 2018. Based on Equinor's assessment, no provision is included in the Consolidated financial statements at year-end 2018. Price review arbitration related changes in provisions throughout 2018 are immaterial and have been reflected in the Consolidated statement of income as adjustments to revenue from contracts with customers.

In March 2016 Equinor Energy AS, acting on behalf of the Troll field partners, terminated a long-term contract for the drilling rig COSL Innovator. The termination was disputed in court by the rig owner COSL Offshore Management AS (COSL). Equinor's share of the total exposure, based on COSL's original claim, has been estimated to be approximately USD 200 million excluding penalty interest. In May 2018, the court of first instance (Oslo District Court) ruled that while the contract could be cancelled according to the applicable clauses of the contract and with payment of the appropriate cancellation charge, the contract had not been validly terminated. In June 2018 both parties appealed the verdict to the court of appeal. Oslo District Court's ruling is consequently not final. Equinor intends to defend its own and the Troll partners' position and considers it to be more likely than not that the final verdict will conclude that the termination of the rig contract was valid under its terms. No provision related to the dispute is included in Equinor's accounts as of 31 December 2018.

On 28 February 2018, Equinor Energy AS received a notice of deviation from Norwegian tax authorities related to an ongoing dispute regarding the level of Research & Development cost to be allocated to the offshore tax regime, increasing the maximum exposure in this matter to approximately USD 500 million. Equinor 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. All transactions are considered to be on arm's length basis.

Revenue transactions with related parties are presented in note 5 Revenues. Total intercompany revenues amounted to USD 13,073 million and USD 10,729 million in 2018 and 2017, respectively. The major part of intercompany revenues is attributed to Equinor ASA, USD 12,887 million and USD 10,564 million in 2018 and 2017, 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 licenses where Equinor Energy AS is operator. Expenses allocated from group companies amounted to USD 4,147 million and USD 3,651 million in 2018 and 2017, respectively. The major part of these expenses is allocated from Equinor ASA, USD 4,016 million and USD 3,481 million in 2018 and 2017, 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 licenses. 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 56 million and USD 51 million in 2018 and 2017, 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 the end of the year the company's proved reserves amounted to approximately 721 million Sm3 oil equivalents (o.e.) (622 million Sm3 o.e. in 2017).

Proved reserves are expected to be produced in the period from 2019 to 2052.

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 Changes in accounting policies

New accounting standards implemented in 2018
With effect from 1 January 2018, Equinor Energy AS implemented IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Due to the immaterial impacts of these new accounting standards on Equinor Energy AS financial statements, prior periods have not been restated.

Change in Cash flow presentation – restatement of comparative periods
Equinor Energy AS has changed its presentation of certain elements related to non-cash currency effects and working capital items in the Statement of cash flows. The presentation was changed to better reflect the cash impact of the different items within operating activities. The changes impact the classification of cash flow items within Cash flows provided by operating activities.

Changes to classification of non-cash currency effects
Non-cash currency exchange gains and losses and currency translation effects previously presented as part of the individual line items within Cash flows provided by operating activities have been reclassified into the line item Gain/loss on foreign currency transactions and balances. This to better distinguish changes in items relating to operating activities, i.e. decrease/increase in working capital, from the balance sheet impact of non-cash currency effects.

Changes to classification related to working capital items
Certain items that previously has been presented as part of change in working capital has been reclassified to other items related to operating activities if the nature of the item is non-cash provisions.

(in USD million)	2017 as reported	2017 changes in presentation	2017 as restated
Income/(loss) before tax	10,583		10,583
Depreciation, amortisation and net impairment losses	3,998		3,998
Exploration expenditures written off	14		14
(Gains) losses on foreign currency transactions and balances	(354)	257	(98)
(Gains) losses on sales of assets and businesses	2		2
(Increase) decrease in other items related to operating activities	1,232	(362)	870
(Increase) decrease in net derivative financial instruments	(202)	51	(150)
Interest received	96		96
Interest paid	(258)		(258)
Cash flows provided by operating activities before taxes paid and working capital items	15,111	(54)	15,057
Taxes paid	(5,090)		(5,090)
(Increase) decrease in working capital	(515)	54	(461)
Cash flows provided by operating activities	9,506	0	9,506
Capital expenditures and investments	(9,318)		(9,318)
(Increase) decrease in financial investments	75		75
(Increase) decrease in other items interest bearing	1		1
Proceeds from sale of assets and businesses and capital contribution received	172		172
Cash flows provided by (used in) investing activities	(9,070)		(9,070)
Group contribution	0		0
Increase (decrease) in financial receivables and liabilities to/from Equinor group companies	(478)		(478)
Cash flows provided by (used in) financing activities	(478)		(478)
Net increase (decrease) in cash and cash equivalents	(42)		(42)
Effect of exchange rate changes on cash and cash equivalents	23		23
Cash and cash equivalents at the beginning of the period	46		46
Cash and cash equivalents at the end of the period	27		27

Change in accounting for lifting imbalances

Equinor Energy AS voluntarily changed its policy for recognition of revenue from the production of oil and gas properties in which Equinor Energy AS shares an interest with other companies. Prior to 2018, Equinor Energy AS recognised revenue on the basis of volumes lifted and sold to customers during the period (the sales method). Under the new method, during 2018 Equinor Energy AS has recognised revenues according to Equinor Energy AS ownership in producing fields, where the accounting for the imbalances is presented within Revenues. This voluntary change in policy has been made because it better reflects Equinor Energy AS operational performance, and at the time of the decision also increased comparability with the financial reporting of Equinor Energy AS peers. The change in policy affects the timing of revenue recognition from oil and gas production; however, the implementation impact recognised in 2018 was immaterial. Equinor Energy AS equity as at 1 January 2018 has consequently not been adjusted upon the change in policy, and comparative figures have not been restated.

STAVANGER, 22 MARCH 2019

THE BOARD OF DIRECTORS OF EQUINOR ENERGY AS

LARS CHRISTIAN BACHER
CHAIR

KJELL BYBERG
MANAGING DIRECTOR

CECILIE RØNNING

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To the General Meeting of Equinor Energy AS

Independent auditor’s report

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 2018, the income statement, statement of comprehensive income and statement 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 accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.

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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities 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

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on 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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, 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.

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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 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 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 laws, regulations, and auditing standards and practices generally accepted 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. We 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 the Board of Directors 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 the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

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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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 22 March 2019
KPMG AS

Ståle Christensen
State Authorised Public Accountant