



equinor

# IR Autumn Conference Seminar

20 November 2018





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# Global macroeconomic and oil market context

Eirik Wærness, Chief Economist and SVP MMP MMA



# Forward-looking statements

This presentation contains certain forward-looking statements that involve risks and uncertainties. In some cases, we use words such as "ambition", "continue", "could", "estimate", "expect", "believe", "focus", "likely", "may", "outlook", "plan", "strategy", "will", "guidance" and similar expressions to identify forward-looking statements. All statements other than statements of historical fact, including, among others, statements regarding plans and expectations with respect to Equinor's returns, balance sheet and long-term underlying earnings growth; market outlook and future economic projections and assumptions; capital expenditure and exploration guidance for 2018 and beyond; production guidance through 2020; CAGR for the period 2017 – 2020; organic capital expenditure for 2018; Equinor's intention to mature its portfolio; exploration and development activities, including estimates regarding exploration activity levels; ambition to keep unit of production cost in the top quartile of its peer group; equity production and expectations for 2018; planned maintenance activity and the effects thereof for 2018; accounting decisions and policy judgments, ability to put exploration wells into profitable production, and the impact thereof;] expected dividend payments and dividend subscription price; estimated provisions and liabilities, including the COSL Offshore Management AS litigation; implementation of IFRS 16, and the impact thereof; planned and announced acquisitions and divestments, including timing and impact thereof, including the acquisition of Danske Commodities, the acquisition of Barra Energia's interest in the BM-S-8 licence, the acquisition of Chevron's interest in the Rosebank project, the divestment of our operated interest in the King Lear discovery to Aker BP, and the divestment of our non-operated interest in the Tommeliten to PGNiG; and other pending acquisitions and divestments discussed in this report; and the projected impact or timing of administrative or governmental rules, standards, decisions or laws, including with respect to and future impact of legal proceedings are forward-looking statements.

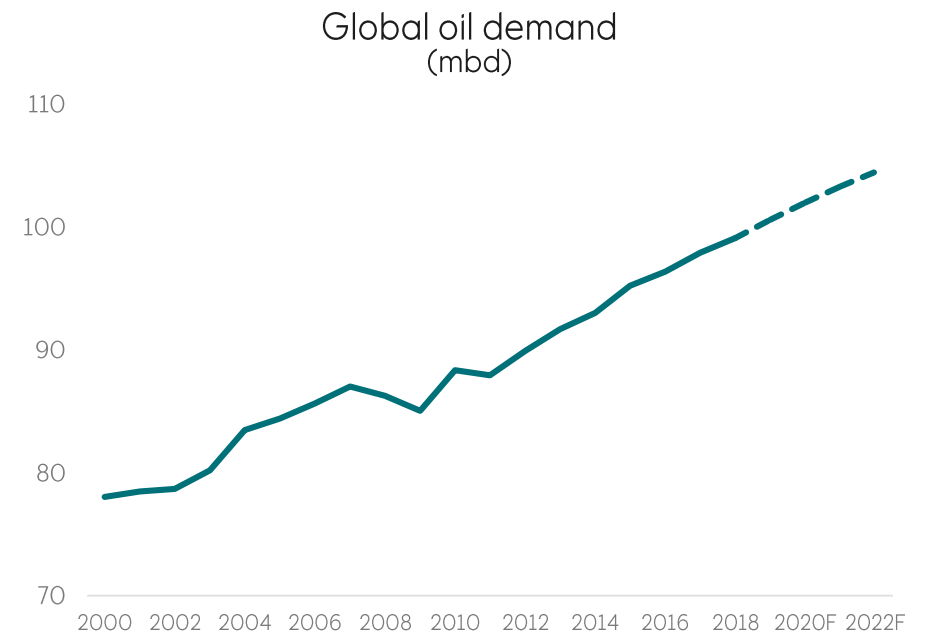
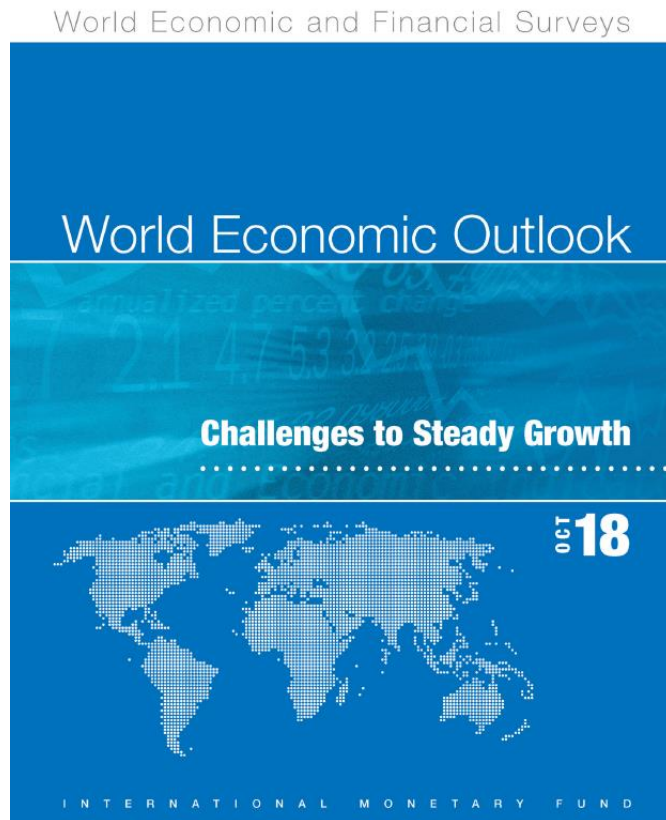
You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons.

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. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including levels of industry product supply, demand and pricing; price and availability of alternative fuels; currency exchange rate and interest rate fluctuations; the political and economic policies of Norway and other oil-producing countries; EU developments; general economic conditions; political and social stability and economic growth in relevant areas of the world; global political events and actions, including war, political hostilities and terrorism; economic sanctions, security breaches; changes or uncertainty in or non-compliance with laws and governmental regulations; the timing of bringing new fields or wells on stream; an inability to exploit growth or investment opportunities; material differences from reserves estimates; unsuccessful drilling; an inability to find and develop reserves; ineffectiveness of crisis management systems; adverse changes in tax regimes; the development and use of new technology; geological or technical difficulties; operational problems; operator error; inadequate insurance coverage; the lack of necessary transportation infrastructure when a field is in a remote location and other transportation problems; the actions of competitors; the actions of field partners; the actions of governments (including the Norwegian state as majority shareholder); counterparty defaults; natural disasters and adverse weather conditions, climate change, and other changes to business conditions; an inability to attract and retain personnel; relevant governmental approvals; labour relations and industrial actions by workers and other factors discussed elsewhere in this report. Additional information, including information on factors that may affect Equinor's business, is contained in Equinor's Annual Report on Form 20-F for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (and section 2.11 Risk review – Risk factors thereof). Equinor's 2017 Annual Report and Form 20-F is available at Equinor's website [www.equinor.com](http://www.equinor.com).

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot assure you that our future results, level of activity, performance or achievements will meet these expectations. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any of these statements after the date of this report, whether to make them either conform to actual results or changes in our expectations or otherwise.

# The peak of global economic growth is likely behind us

... representing a modest downside to currently healthy oil demand growth



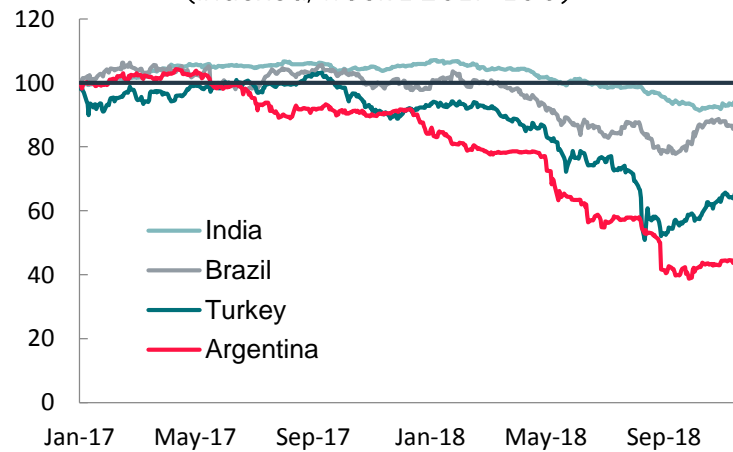
Source: IMF, IHS Markit (history) and Equinor (projections)

Source: IEA

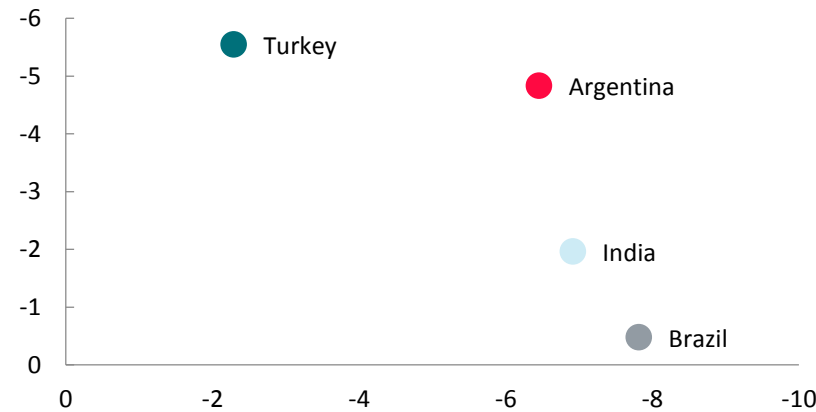
# In an uncertain world emerging markets are under pressure

... rising energy import bills are an important part of the picture

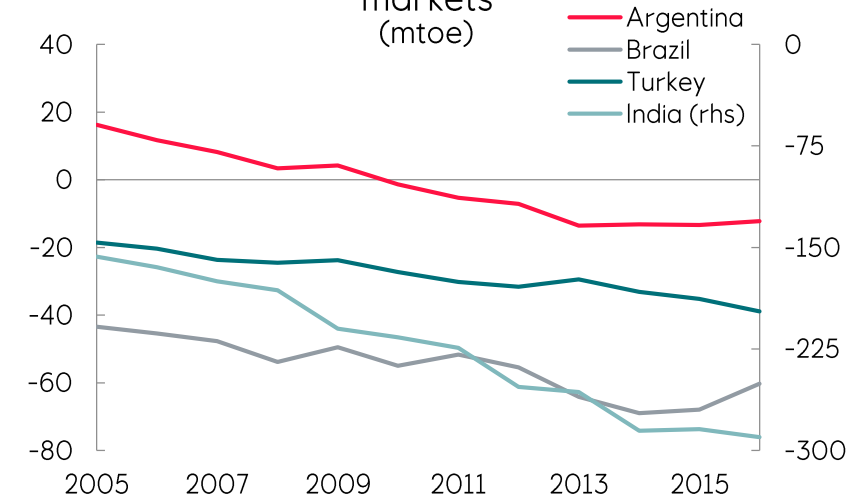
Emerging markets fx rates USD/local currency  
(Indexed, week 1 2017=100)



Fiscal (x-axis) and current account (y-axis) deficit, selected emerging markets (% of GDP)

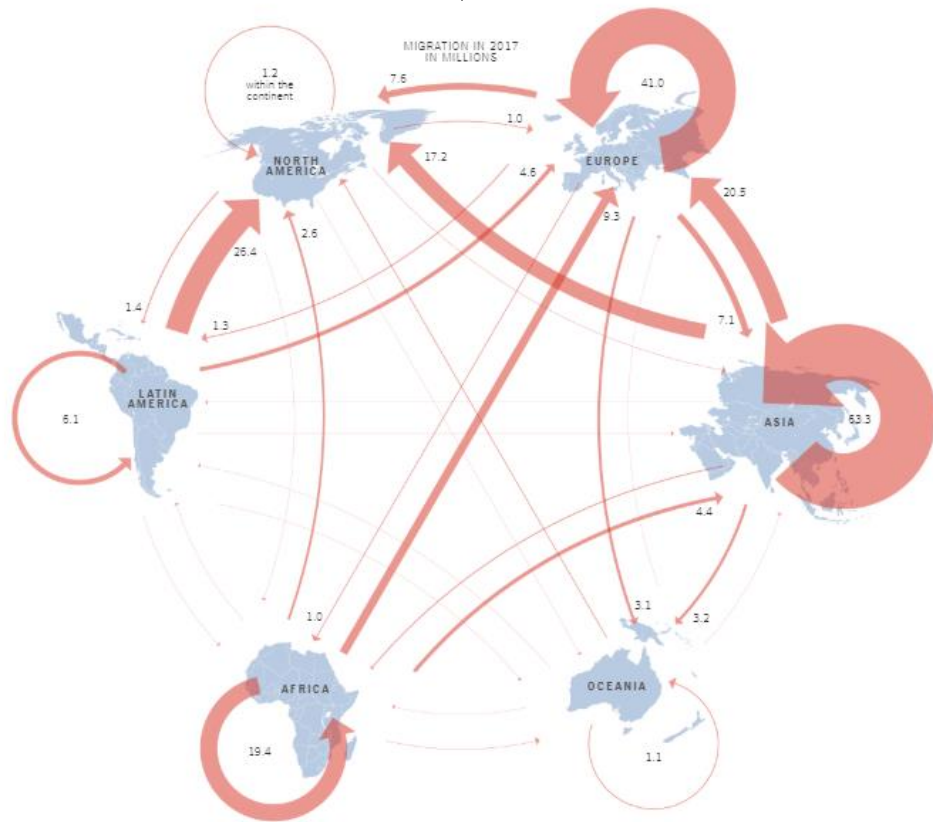


Net energy exports, selected emerging markets (mtoe)



# Immigration is a widely discussed topic in a more uncertain world ... but it is important to understand the pluses and minuses

Migrant stock  
Millions, 2017



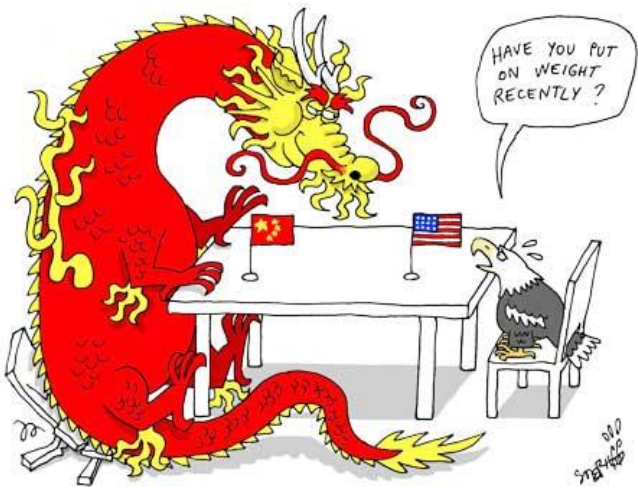
- Short and medium term
- Private consumption
  - Government consumption
- Long term
- Labor market participation
  - Demographics



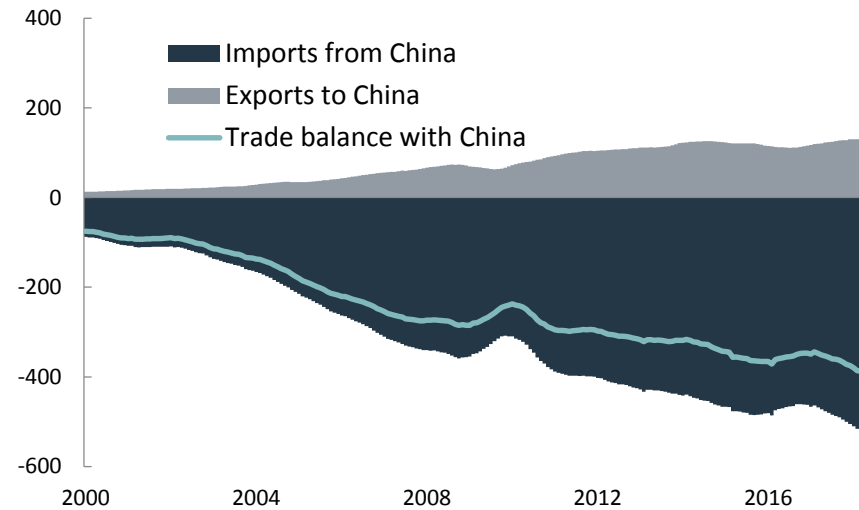
- Short and medium term
- Integration costs
- Long term
- Productivity loss?
  - Unemployment?

# Escalation of trade tensions starts to bite and influence commodity flows

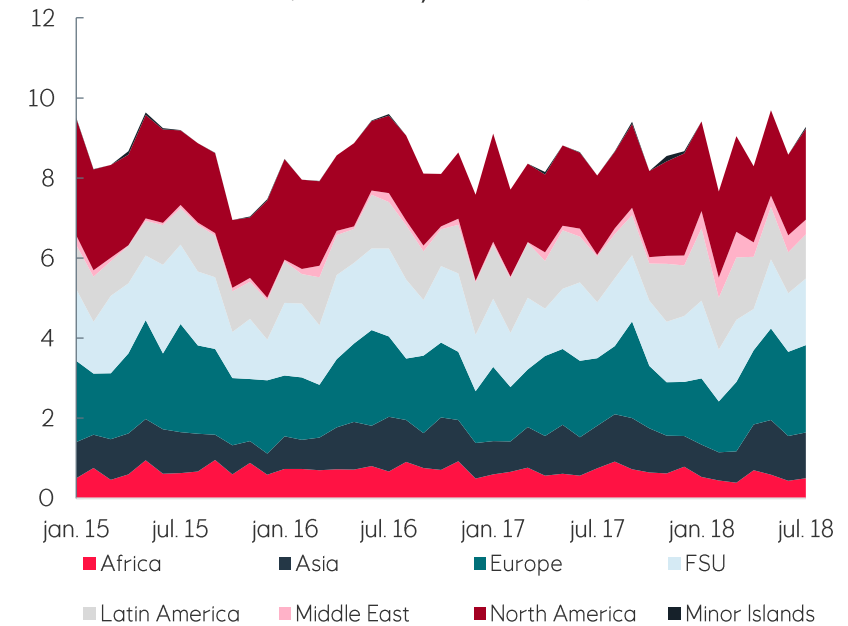
## ...but recent talks give reason for cautious optimism



US goods trade balance with China  
(bn USD, cumulative 12-month rolling)



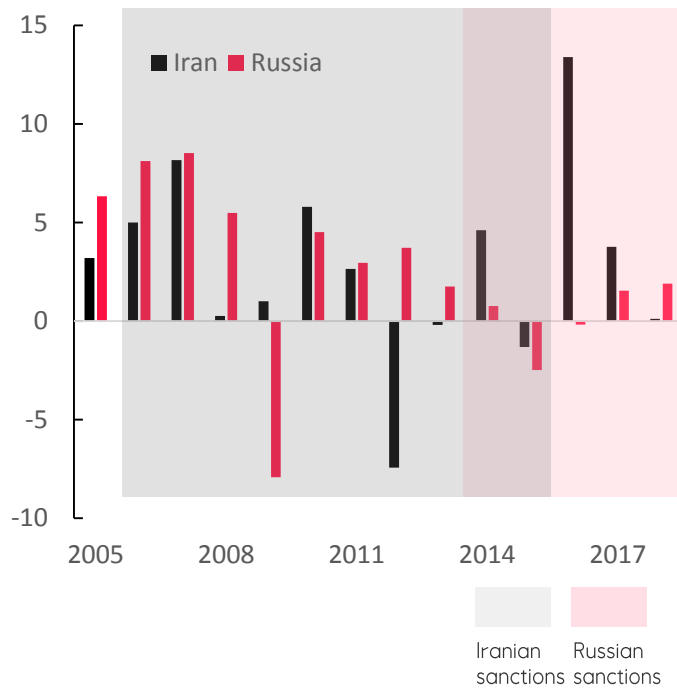
US oil product exports by region  
(2015-18 ytd, mill tons)





# Iranian sanctions leave their mark on the global oil market ...and influence growth, currency and inflation in Iran

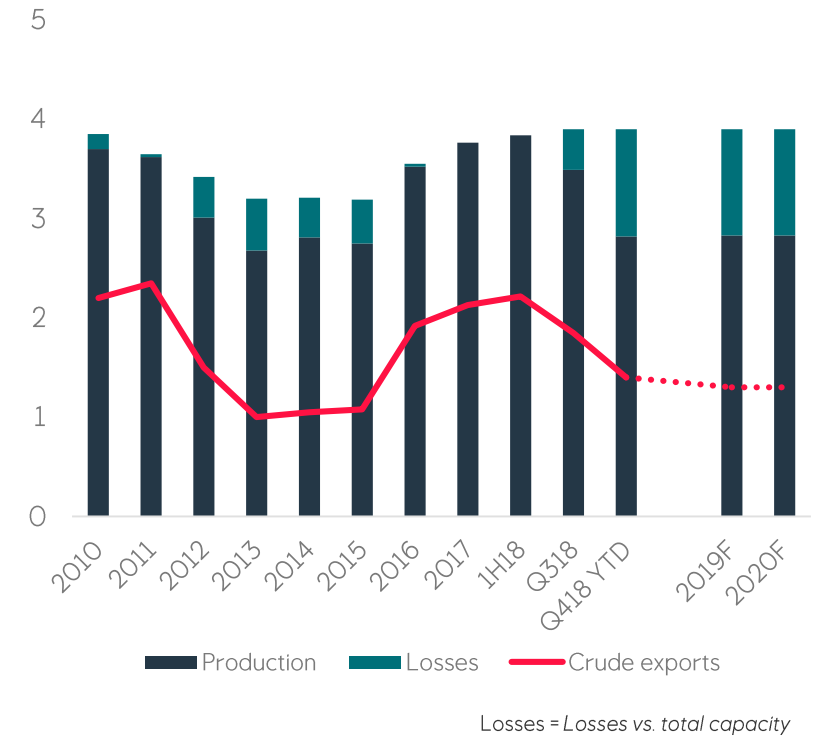
Economic growth in Iran and Russia  
(% change y/y)



Source: IHS Markit, Financial Times



Iranian oil production and supply disruption  
(mbd)

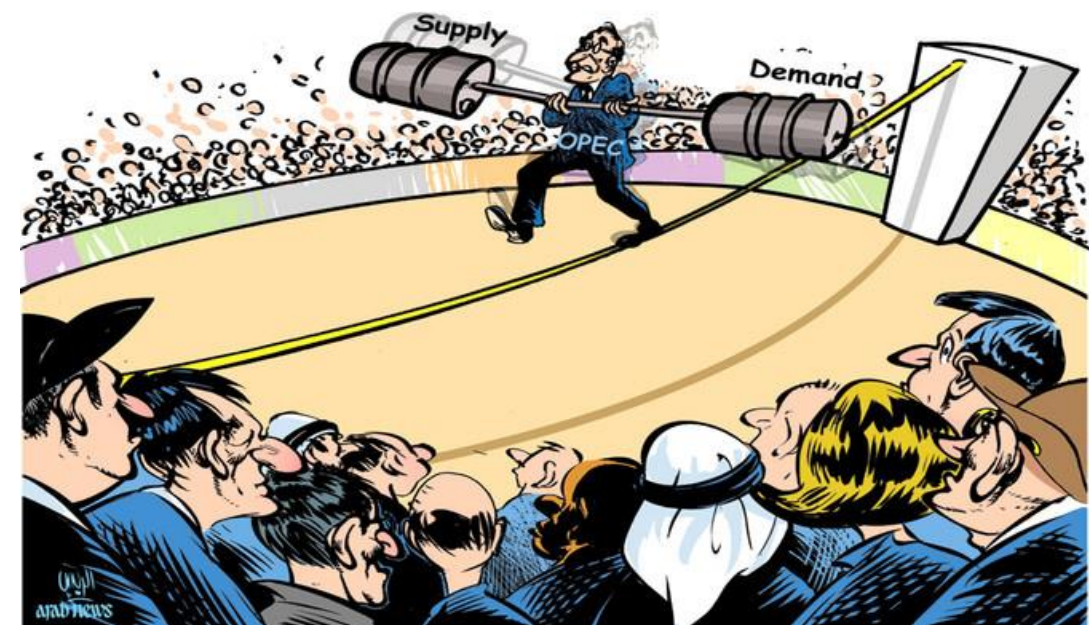
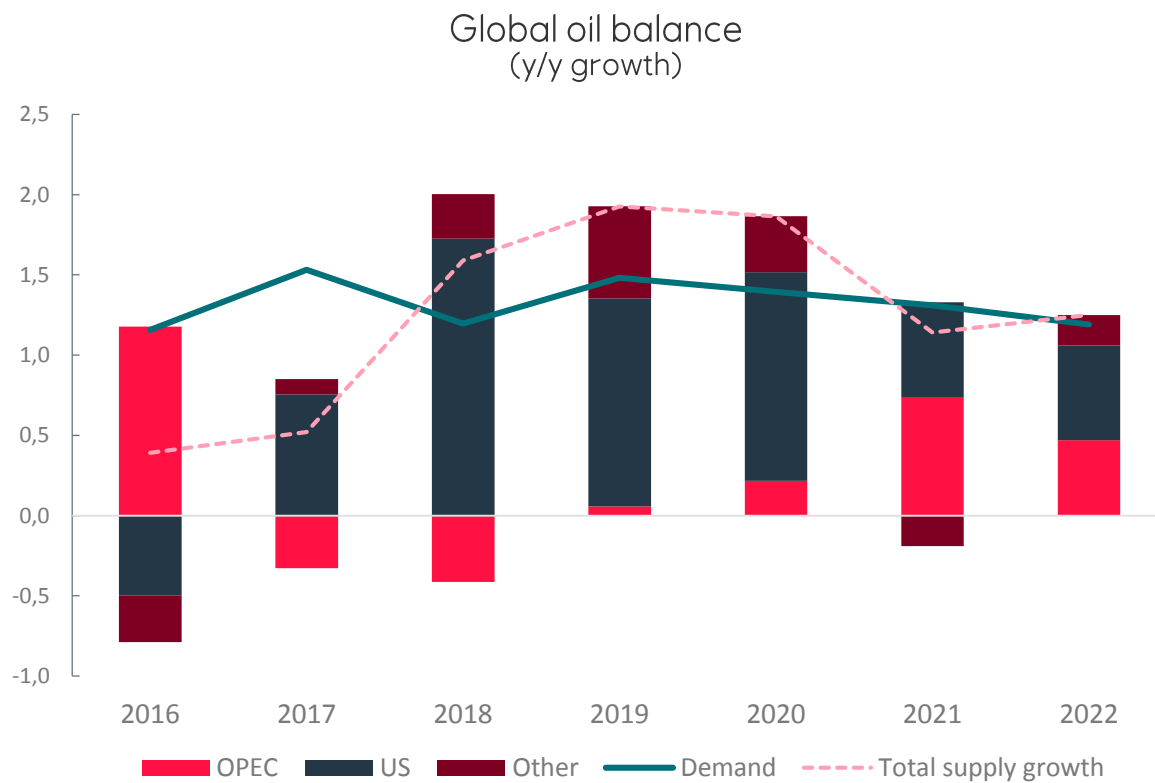


Source: Petromatrix, IEA, Equinor



# Towards a more balanced market

Expect continued market management from Opec and Russia















Source: IEA, Equinor

# Current strength in global oil market likely to lose momentum

Impact on price

Q4 2018      MT (2022)

	Q4 2018	MT (2022)
Global oil demand		
Global shale production		
Non-Opec production		
Opec interventions		
Supply disruptions		
Commercial inventories		

Brent prices

(USD/bbl)



Sources: Platt's, ICIS





# Global gas markets

Elisabeth Aarrestad  
Vice President, Market Analysis

## Highlights gas markets 2018

### US:

- Rapid production growth and low prices
- Exports increasing and continued coal displacement

### EUROPE:

- Persistent reduction in indigenous supply and subsequent high gas imports
- Strong prices due to further market globalization

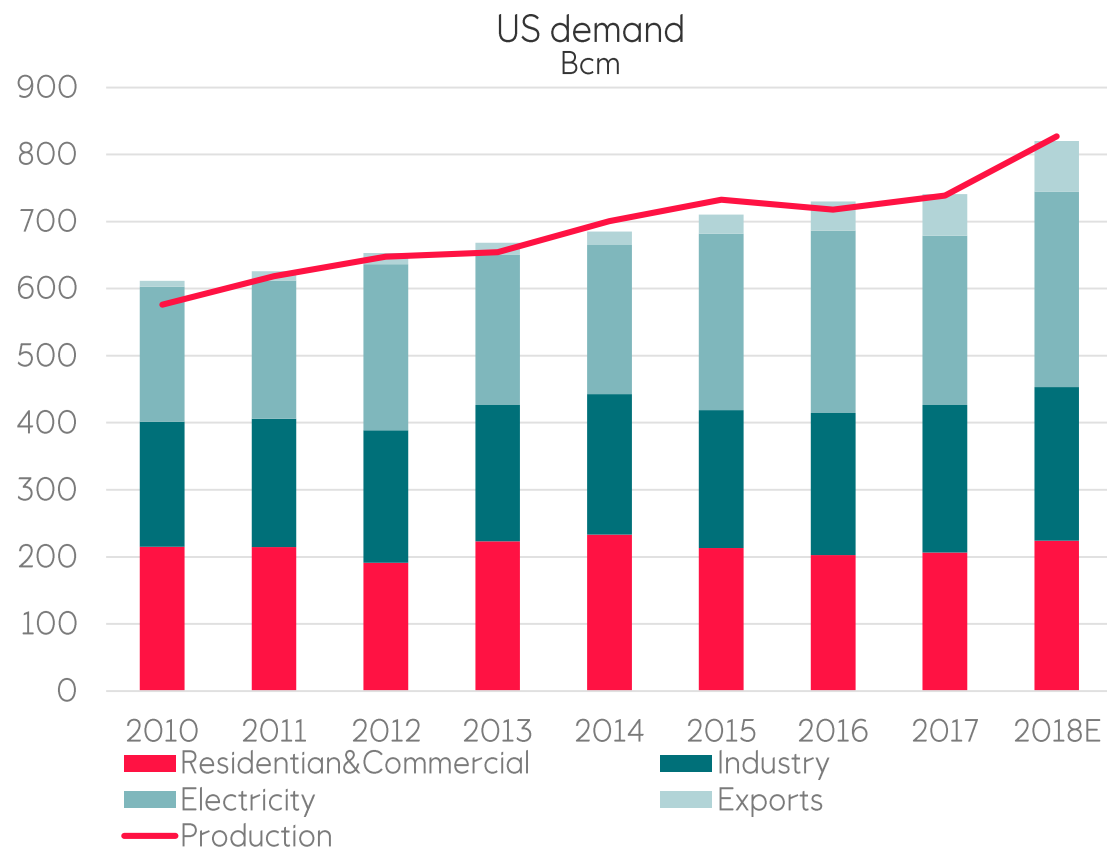
### ASIA:

- Strong LNG prices
- Driven by strong gas demand and oil prices



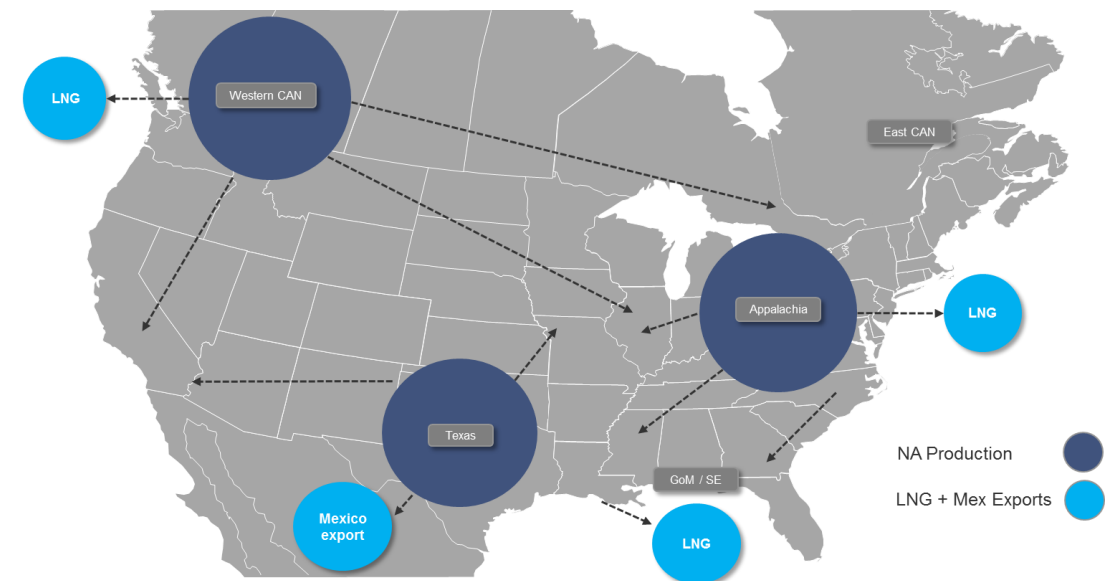
# US gas balance

## Exports crucial in balancing the market



Source: EIA, Equinor

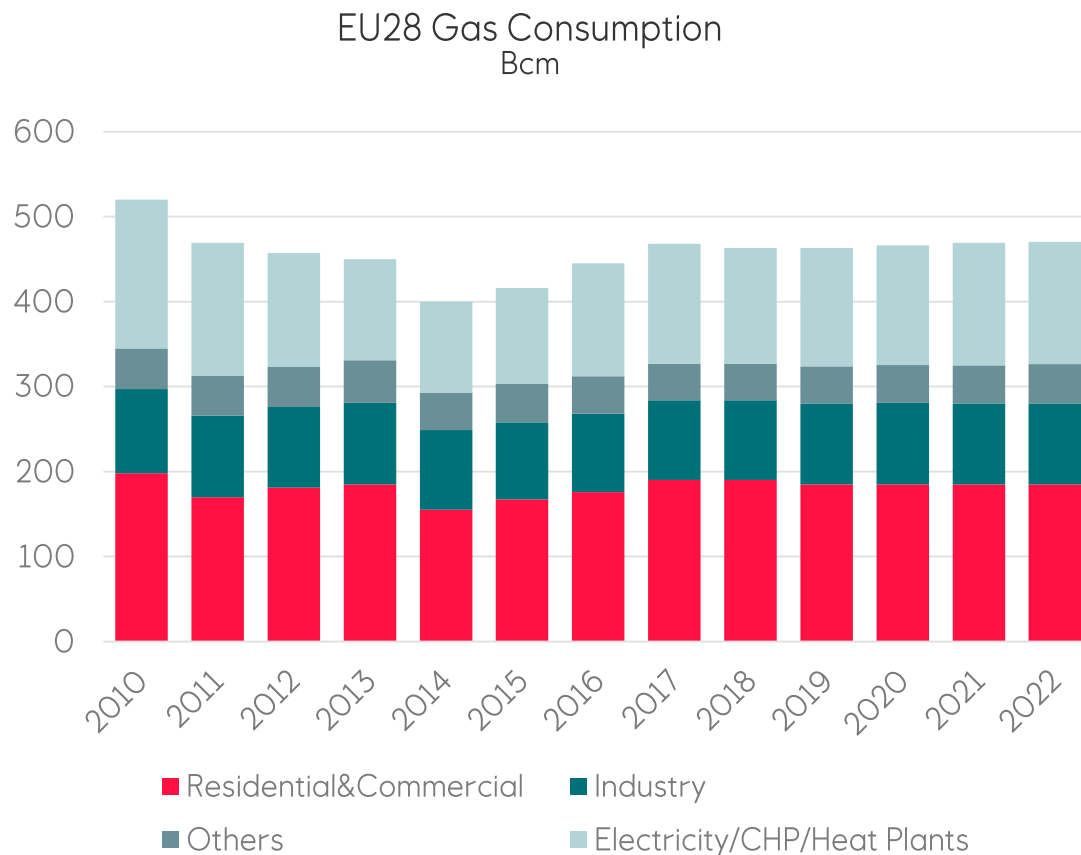
## US will become a top LNG exporter



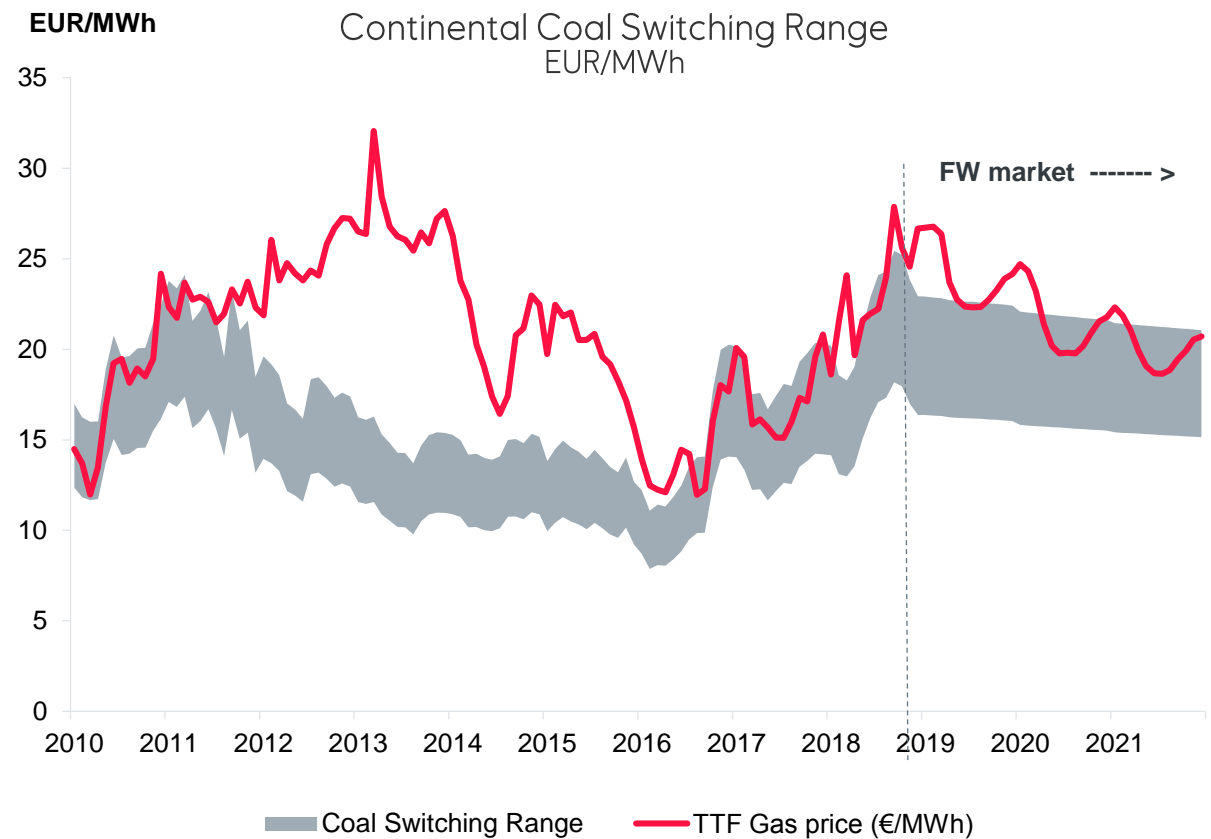
Source: EIA, IHS

# European demand

Gas is a flexible source for electricity, but high prices challenge gas' competitiveness



Sources: Eurostat, Wood Mackenzie, TSO's Equinor Analysis

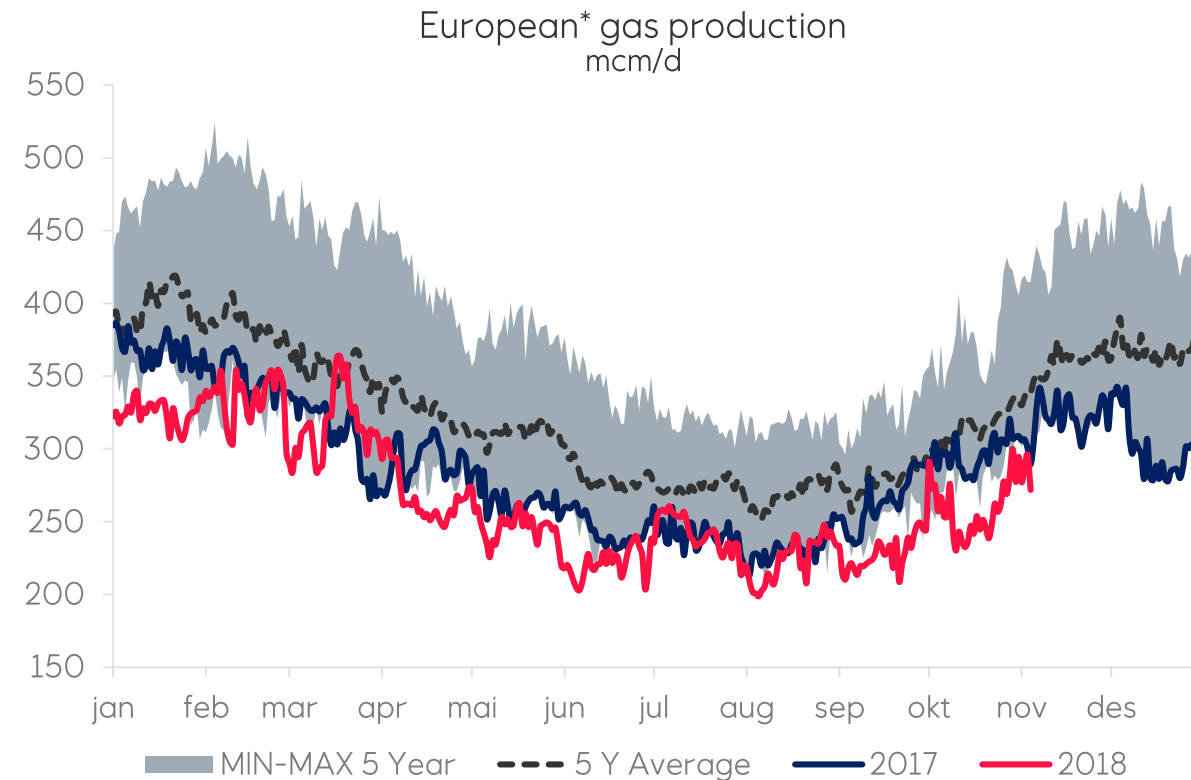
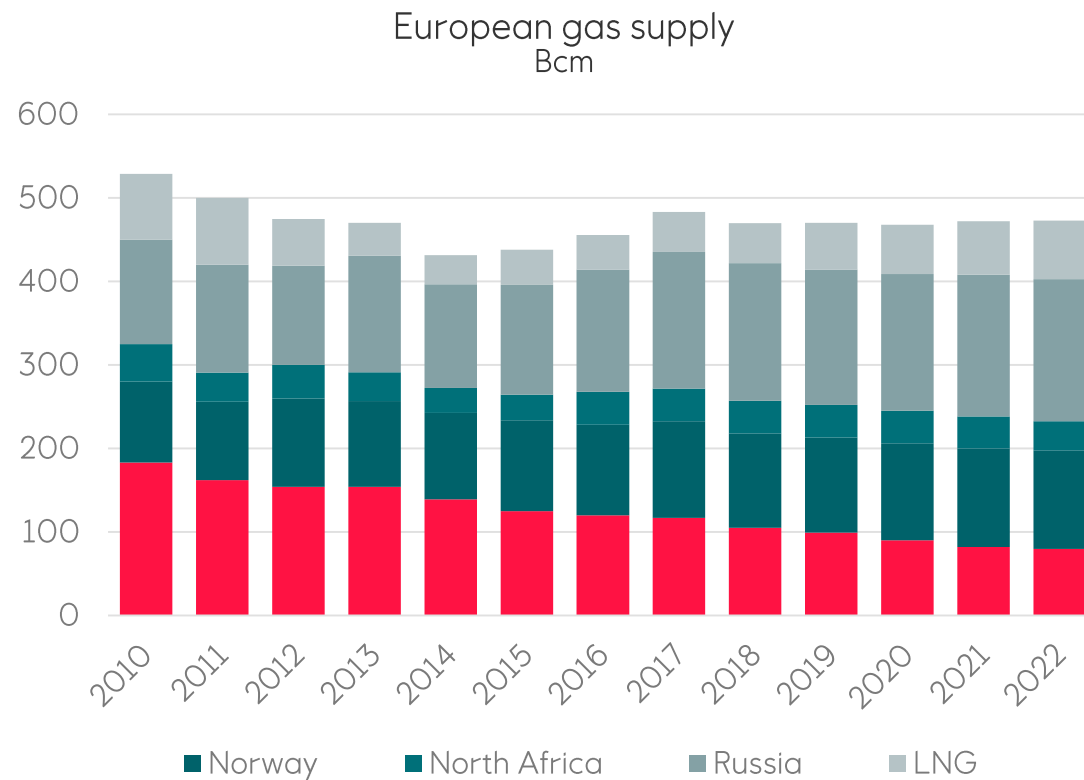


Sources: ICE, Argus, Equinor Analysis



# European supply

European import dependency increases as a result of decline in the indigenous production

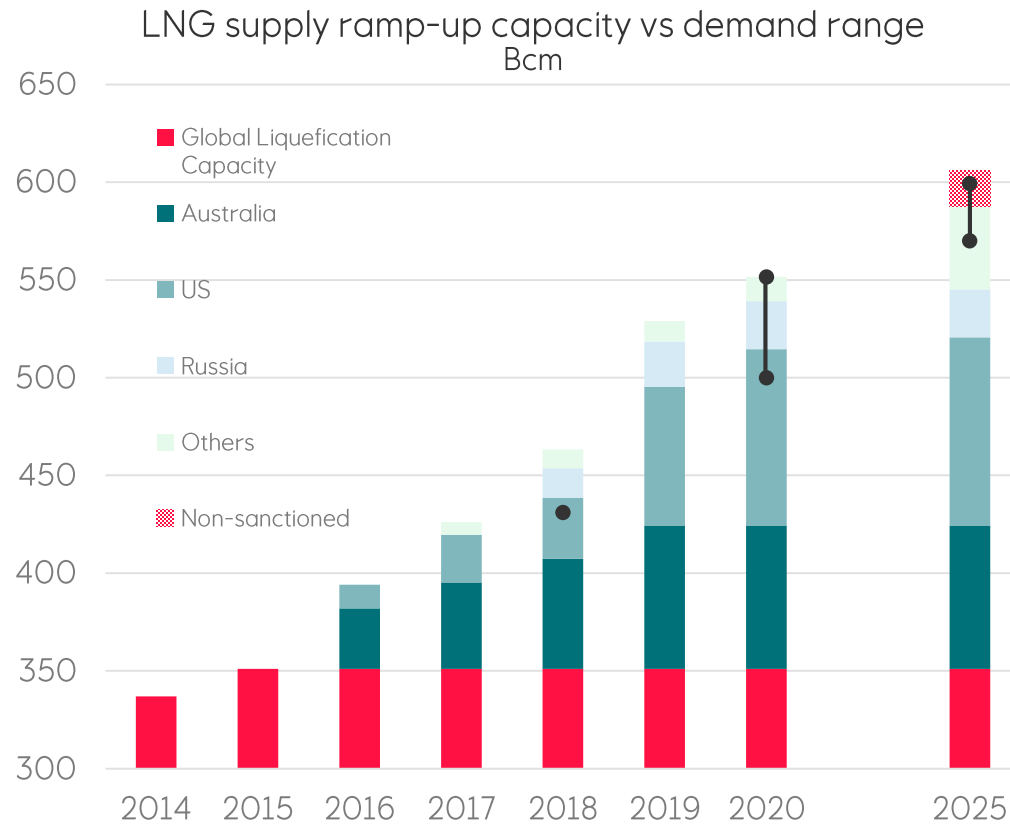


\* Net production entering markets, NL, UK, Denmark, Italy, Germany, Hungary, Croatia, Romania and Poland

Sources: TSO's Equinor Analysis

# Global LNG supply

## Continued demand growth, competition for the next supply window



Next wave of LNG\*



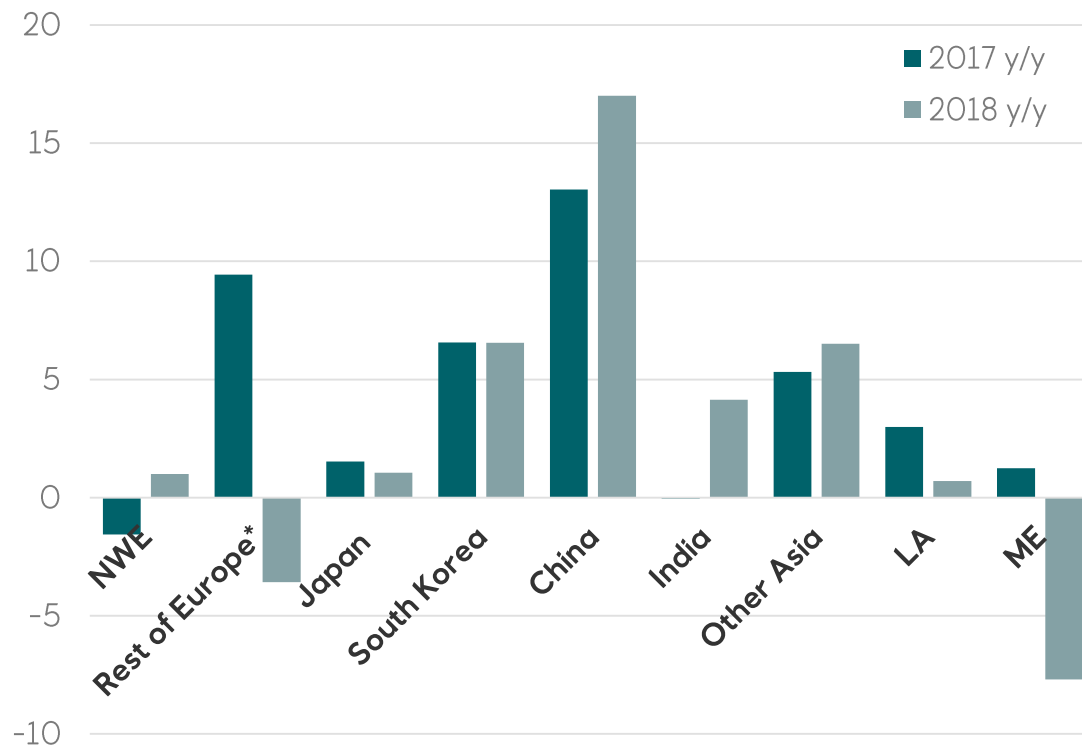
\* Brownfield: expand on existing infrastructure. Greenfield: build plant from scratch

Sources: IHS Waterborne, Equinor Analysis

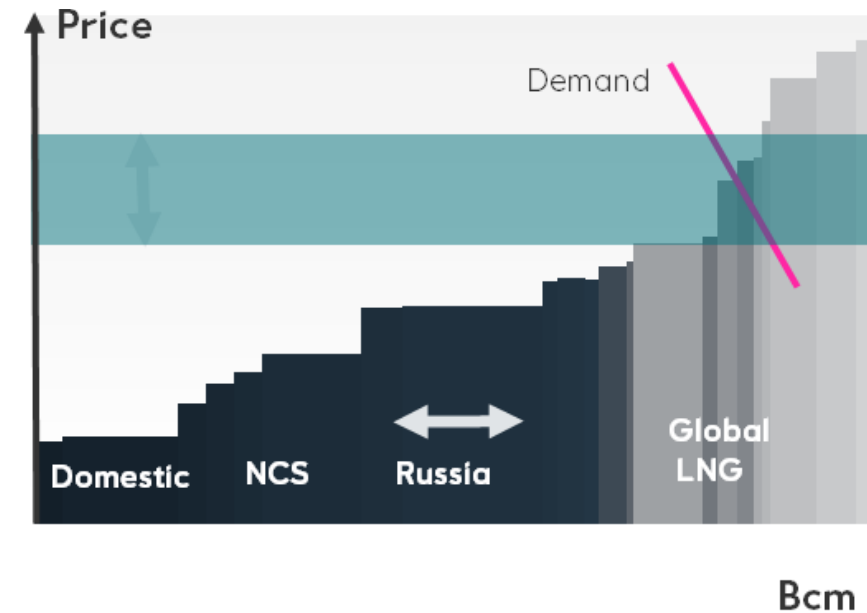
# Asian development impacting Europe

LNG imports to Europe has not increased y/y, however significant growth in Asia

LNG demand growth in 2017\* and in 2018\* y/y  
Bcm



European supply stack















Sources: IHS Waterborne, Equinor Analysis

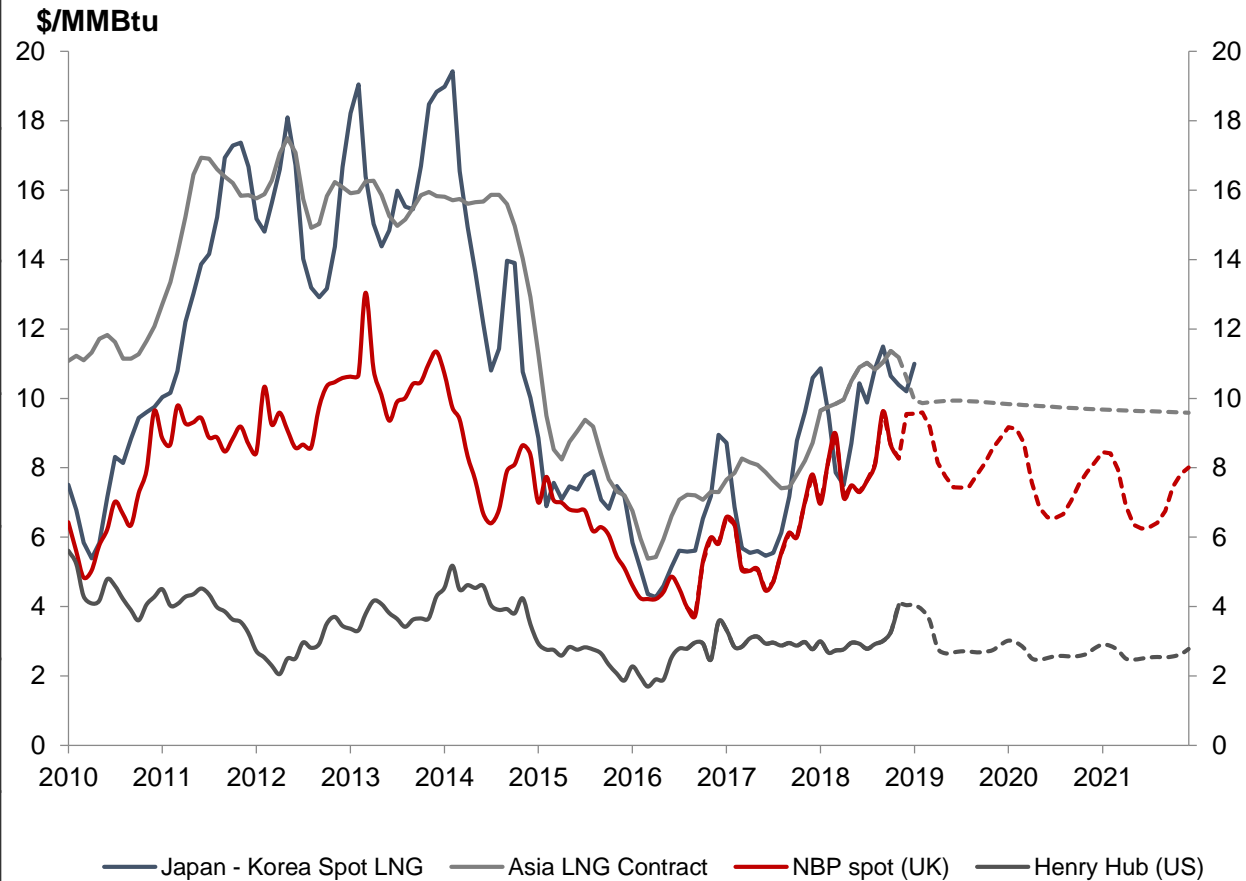
\* as off end October and excl. Turkey



# Strong global demand support European & Asian gas prices

## LNG supply growth softens balance and reduce prices in medium term

Key drivers Europe	Impact on price	
	Q4 2018	Medium term
Domestic production		
Pipeline imports		
Storage inventories		
Demand factors		
Global LNG demand		
Global LNG supply		



Sources: Platt's, ICE, NYMEX, Argus, Equinor Analysis

# IFRS 16 Leases

Morten Haukaas  
Chief Accountant

# IFRS 16 - Impact for Equinor

## Note 22 Leases in the 2017 Annual Financial Statements

The information in the table below shows future minimum lease payments due and receivable under non-cancellable operating leases at 31 December 2017:

(in USD million)	Operating leases						Net total
	Rigs	Vessels	Land and buildings	Other	Total	Sublease	
2018	1,039	615	155	152	1,961	(125)	1,837
2019	712	393	140	113	1,359	(105)	1,253
2020	509	382	136	92	1,119	(104)	1,015
2021	374	304	133	60	872	(68)	804
2022	352	233	134	57	777	(22)	755
2023-2027	287	498	621	47	1,453	(61)	1,392
2028-2032	-	93	369	23	485	(0)	485
Thereafter	-	13	50	13	76	-	76
<b>Total future minimum lease payments</b>	<b>3,274</b>	<b>2,532</b>	<b>1,737</b>	<b>558</b>	<b>8,101</b>	<b>(484)</b>	<b>7,617</b>



# IFRS 16 - Impact for Equinor

- **Financial statement**

- Balance sheet
  - Current: Few leases on balance sheet
  - IFRS 16: All leases on balance sheet
- Income statement
  - Current: OPEX
  - IFRS 16: Depreciation and Interest

- Cash flow statement

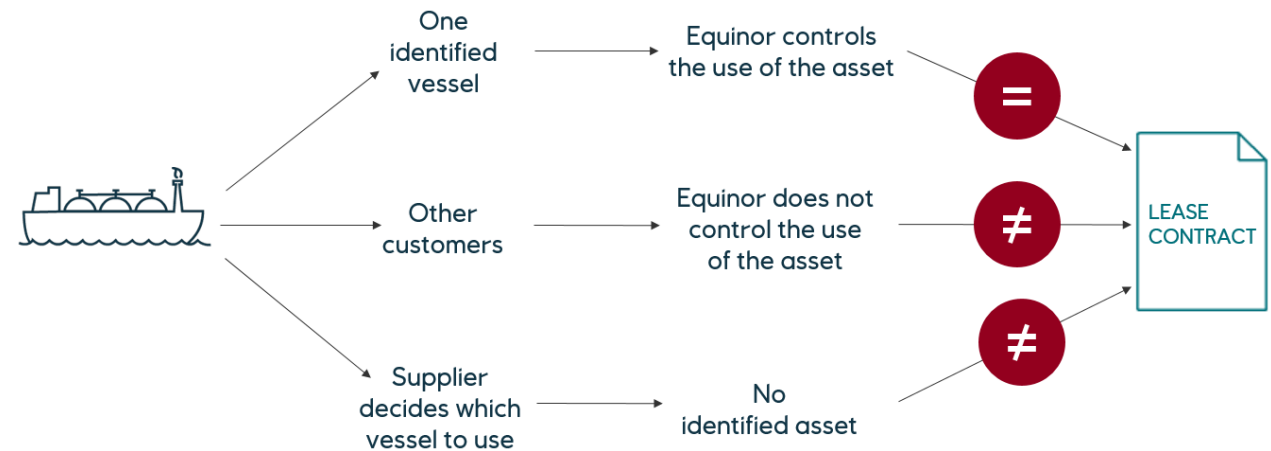
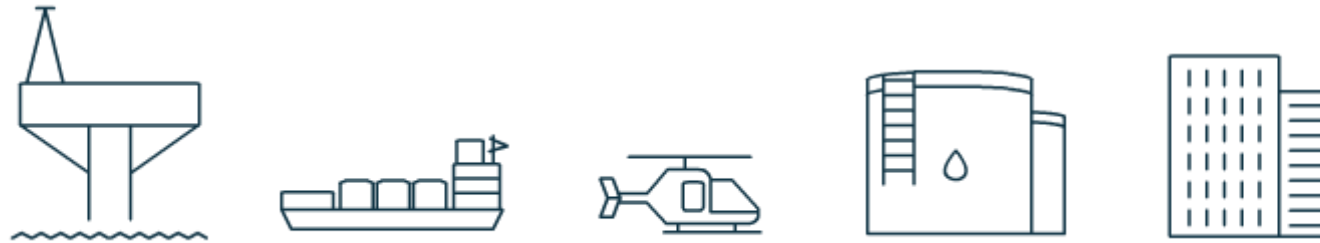
- Current: Operating and Investing
- IFRS 16: Operating (small part) and Financing

- **Key performance indicators**

- Net debt ratio
- Operating cash flow
- Free cash flow
- Capex
- RoACE



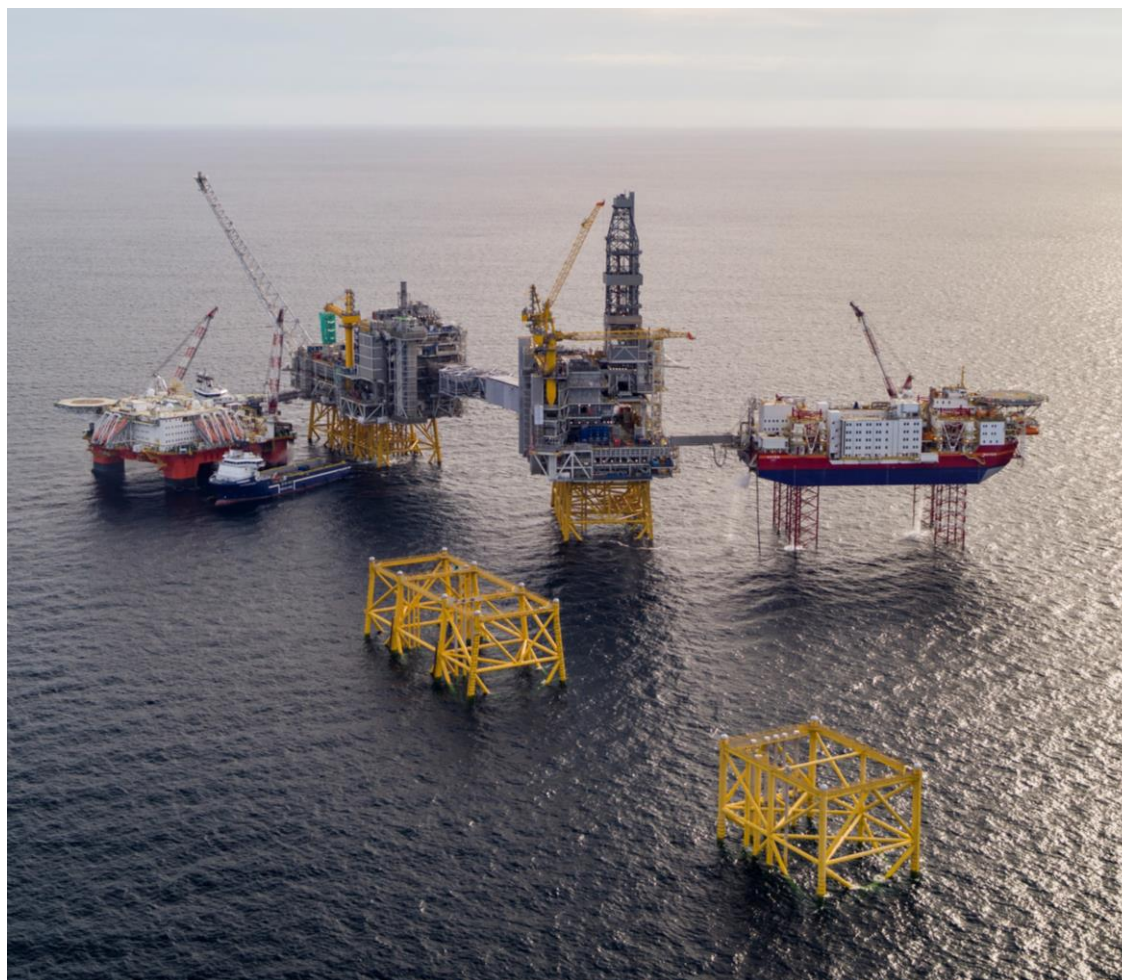
# IFRS 16 - Deep dive in certain elements



# IFRS 16 - Impact for Equinor

- *Currency fluctuations on lease liabilities*

	Legal Contract company		Group	
	USD	NOK	USD	
Lease liability x0	100	800	100	(8 NOK/USD)
Lease liability x1	100	700	100	(7 NOK/USD)
Gain - year x1		100	14	





# IFRS 16 - Deep dive in certain elements

## *Leases entered into by the license operator*

- Who is the customer in the lease?
- **Substance:** Each participant is responsible for its pro-rata share of costs
- **IFRIC:** Who is primary responsible for the external liability?
- Accounting by non-operator?

	Today (IAS 17)	Operator net	Operator gross	Operator gross + fin sublease
<b>Balance Sheet</b>				
RoU asset		135	450	135
Fin sublease receivable				315
Lease liability		135	450	450
<b>Income Statement</b>				
Revenue			70	
Opex	-30			
Depreciation		-27	-90	-27
<b>Net operating income</b>	<b>-30</b>	<b>-27</b>	<b>-20</b>	<b>-27</b>
Interest income				11
Interest expense		-5	-16	-16
<b>Net income</b>	<b>-30</b>	<b>-32</b>	<b>-36</b>	<b>-32</b>

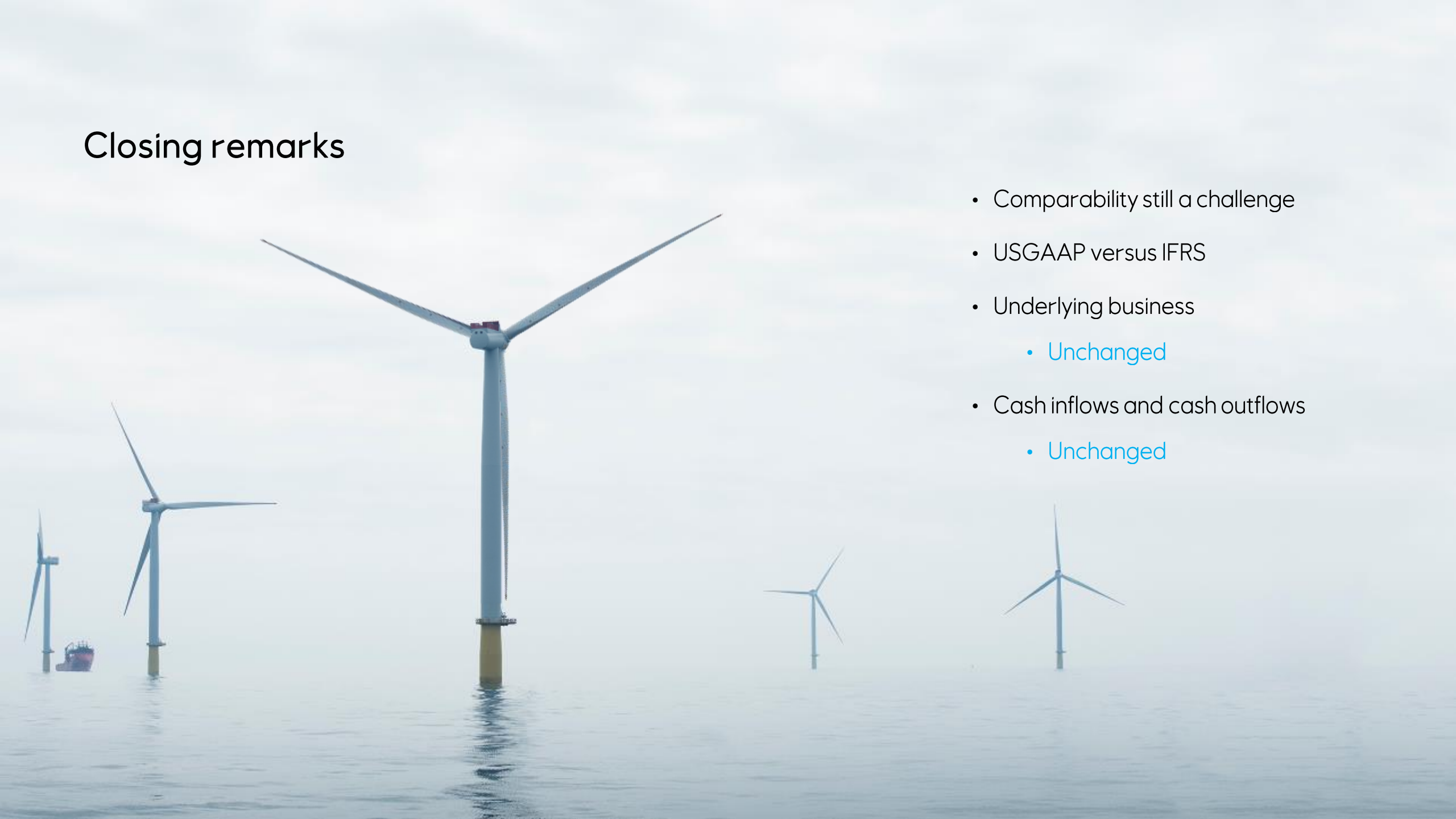
**Example:**

5 year lease to be used on one license, with payment of 100 per year, NPV 450

Operator 30% WI, Partners 70%

## Closing remarks

- Comparability still a challenge
- USGAAP versus IFRS
- Underlying business
  - Unchanged
- Cash inflows and cash outflows
  - Unchanged





# IT and Digitalisation in Equinor

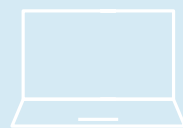
Åshild Hanne Larsen  
Chief Information Officer and SVP IT



# IT creates business value by...



Fueling  
a data driven  
organisation



Transforming  
to a fully digital  
Equinor



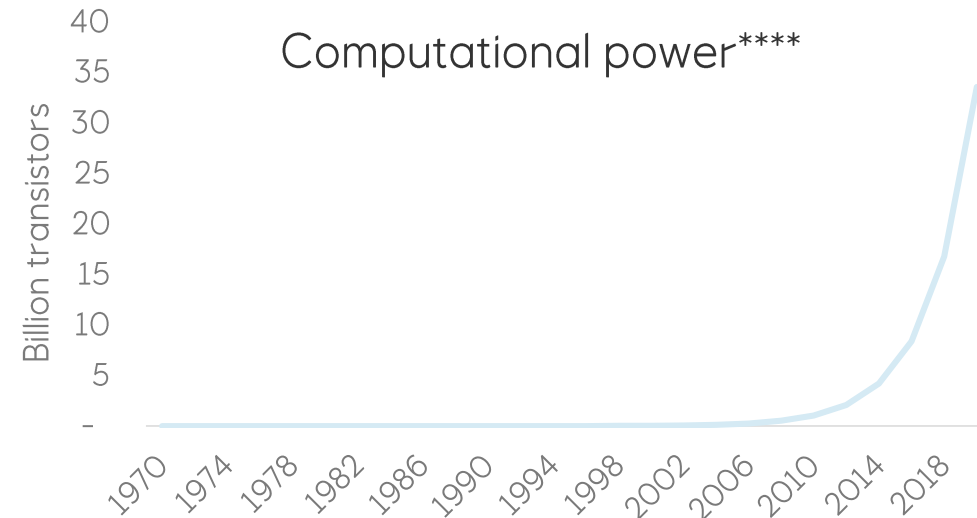
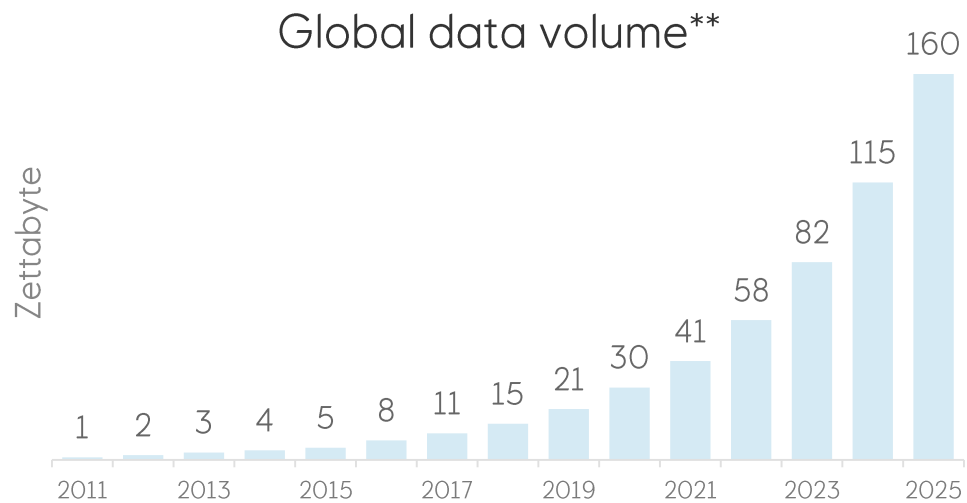
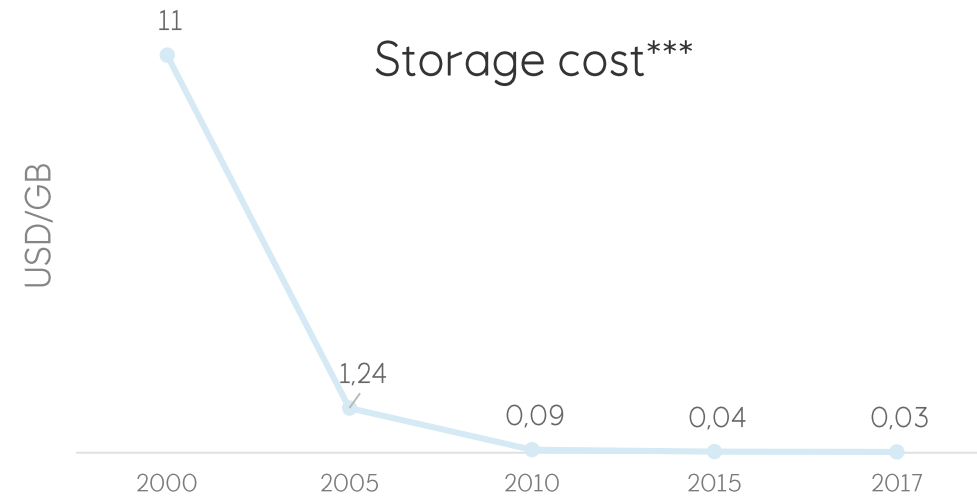
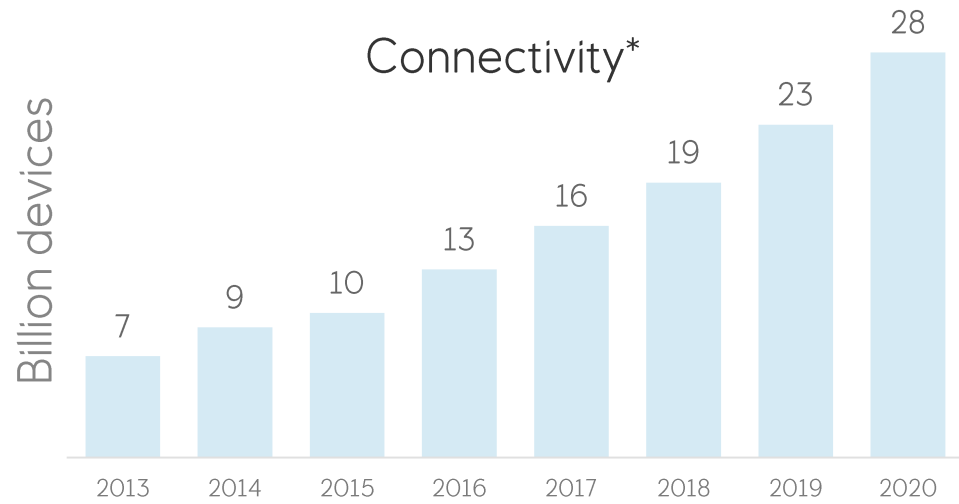
Enabling  
an efficient  
work-day



Safeguarding  
information and  
systems



# Technology trends present significant opportunities for the energy industry



# Digitalisation drives the next wave of improvements

Safety and sustainability strengthened through  
leveraging digital technologies

## Digitalisation & innovation Potential

Value creation producing fields

Above **2** bn USD

Automated drilling – cost  
Around

**-15%**

Field of the future – capex  
Around

**-30%**

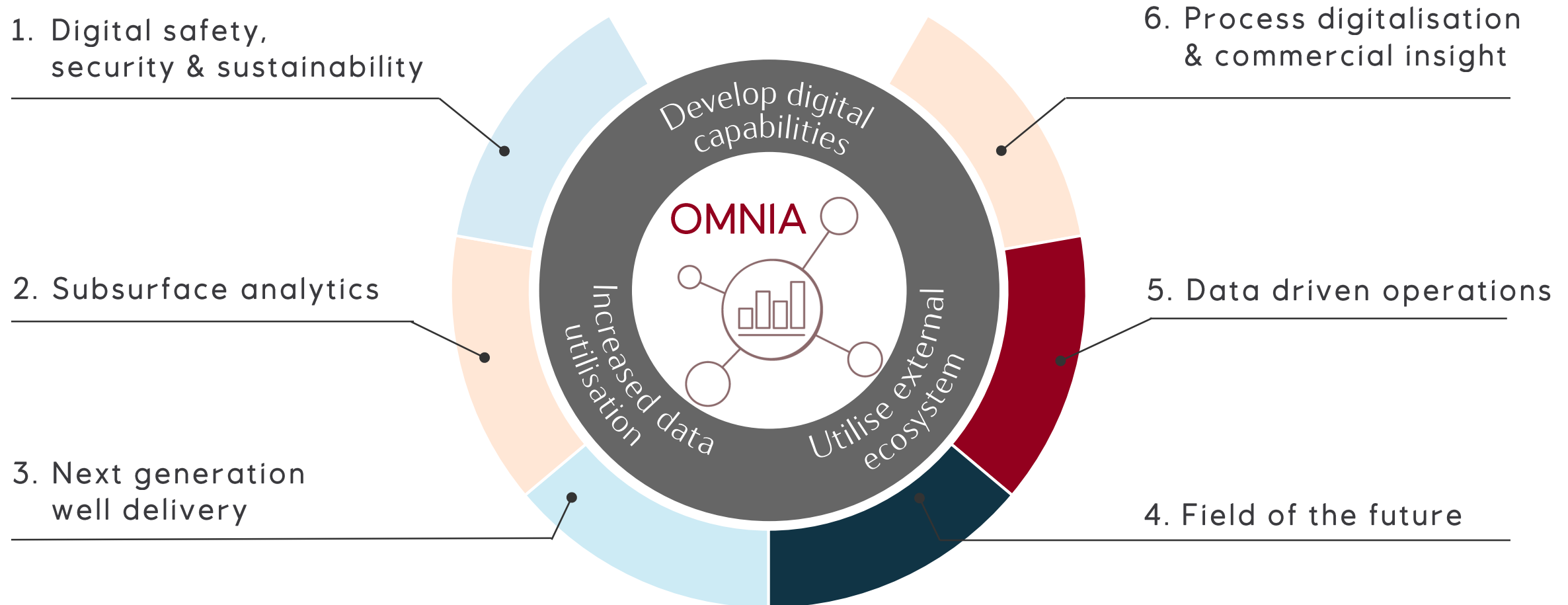
Field of the future – opex  
Around

**-50%**

Integrated remote operations US Onshore

Around **500** million USD  
Added value

# A digital roadmap to accelerate our transformation



# Projects are already being delivered

Well ID	Well Name	Well Type	Status
13435	Orin A F-02 med lekkasje for program A i ringram B	WOO - Wethead Area General	
14000	559 F-01 - Produksjon brønn med lekkasje A-B	WOO - Wethead Area General	
14508	559 F-03 - Lekkasje for program A i ringram B	WOO - Wethead Area General	
14554	559 F-30 - Orin A gasbrønn med korrosjonsproblemer i sentry	WOO - Wethead Area General	

**Operational planning tool**  
Oseberg

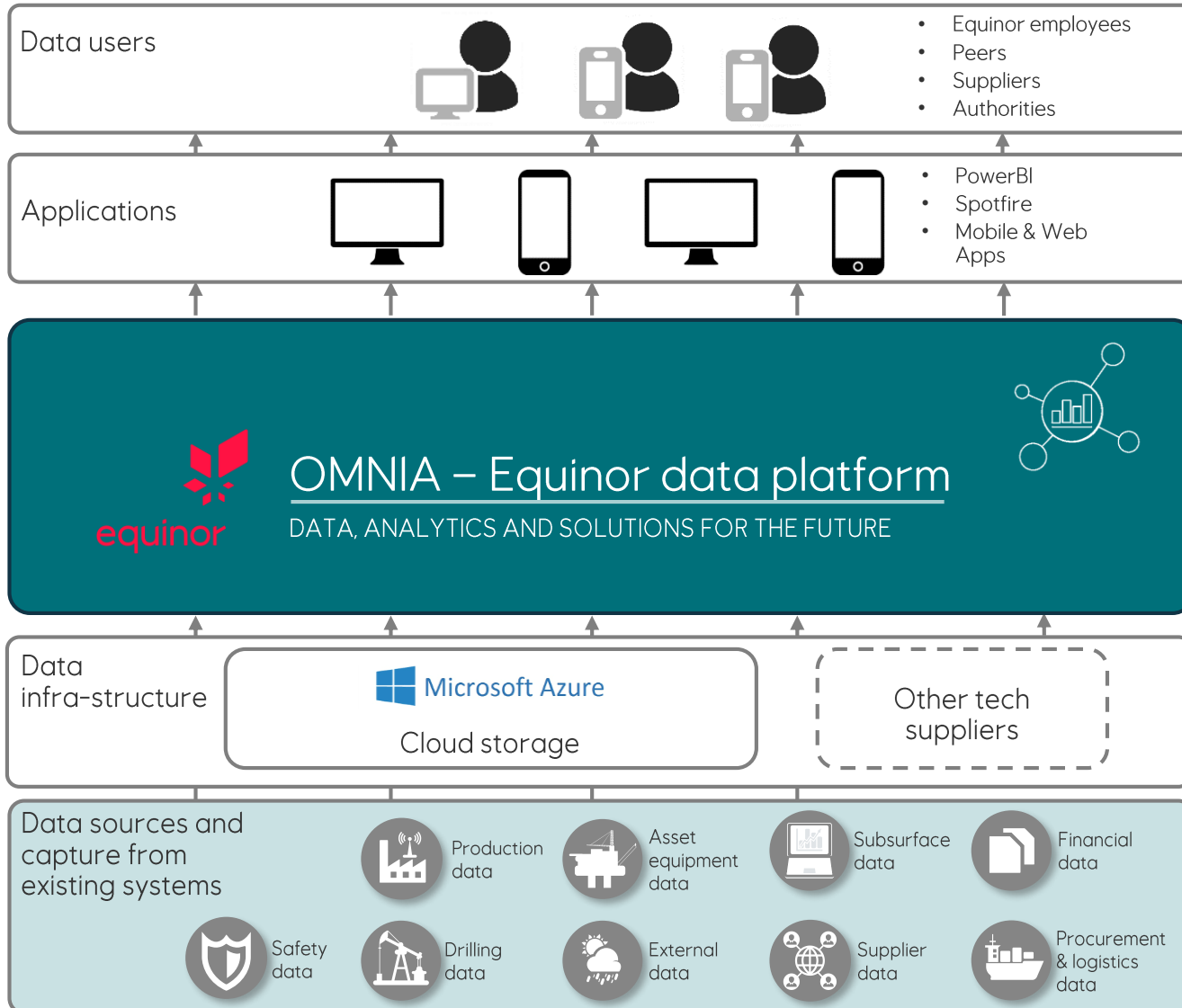
**Integrated operations centres**  
US and NCS

**Subsurface data lake**  
Johan Sverdrup

**Digital twin**  
Johan Sverdrup, Mariner, Castberg



# Enabler 1: Increased data utilisation through OMNIA...



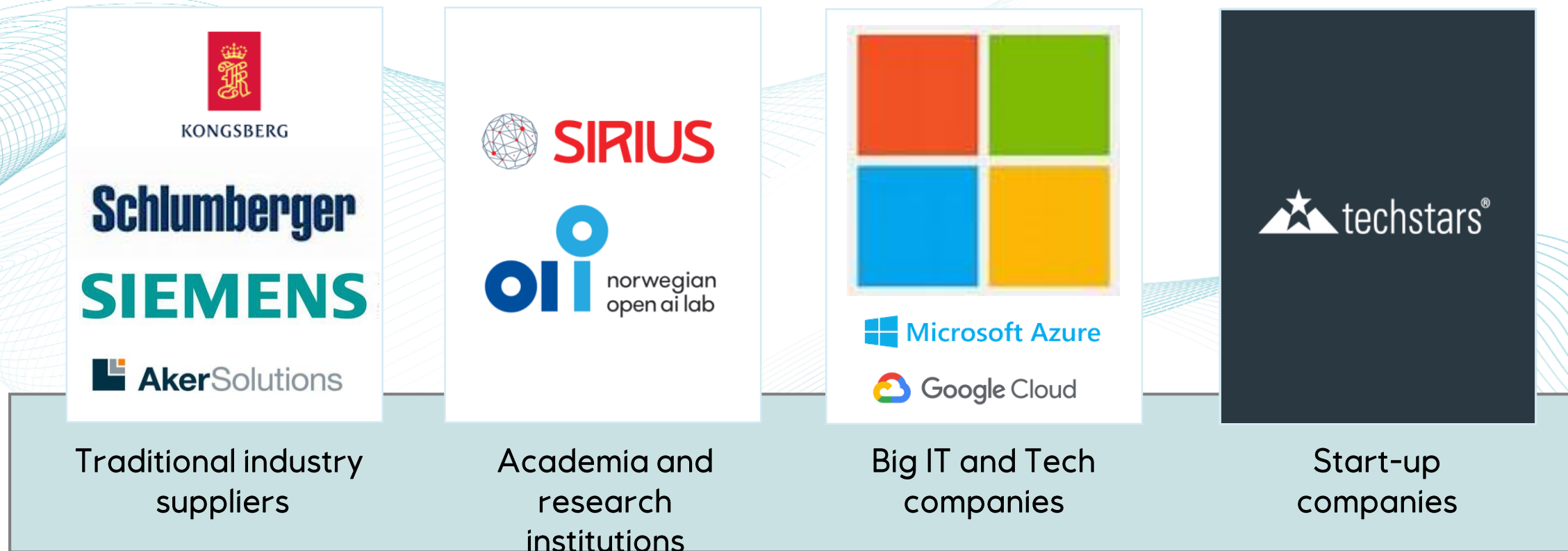
The 80/20 challenge

Huge amounts of industrial data

3000 IT applications


Reservoir experience platform

# Enabler 2: Utilising and expanding our external ecosystem...



# Enabler 3: Developing capabilities through our digital academy...

Develop the capabilities of our workforce to prepare for a digital future



Digital competence is not only about tools and technology, it requires new ways of thinking, working and learning...

**DIGITAL COMPETENCE FOR ALL**  
 Provide all our employees the opportunity to gain basic understanding of, and skills within Digital.

**CATERING TO THE TECH SAVVY**  
 Offer our employees the opportunity to deep dive on digital skills and topics they already master or even explore and master new areas of expertise

**LEADERSHIP IN THE DIGITAL AGE**  
 Equip our leaders with the right skills to lead in the digital era and become digital change enablers





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20 November 2018

# Q & A