

Equinor fourth quarter 2019 and year end results

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Equinor (OSE: EQNR, NYSE: EQNR) reports adjusted earnings of USD 3.55 billion and USD 1.19 billion after tax in the fourth quarter of 2019. IFRS net operating income was USD 1.52 billion and the IFRS net income was negative USD 0.23 billion, following net impairments of USD 1.41 billion.

The fourth quarter and full year were characterised by:

- Solid financial results in a quarter with lower commodity prices
- Strong operational performance in 2019, and record high production in the fourth quarter
- Early start-up and effective ramp up of Johan Sverdrup. New projects on stream in 2019 represent 1.2 billion boe in expected resources net to Equinor, at an average break-even oil price around USD 30 per barrel
- Renewables projects in development in 2019 are expected to add 2.8 GW of electricity capacity to Equinor
- Strong growth in capital distribution in 2019, reflecting 13% growth in quarterly cash dividend and the launch of a USD 5 billion share buy-back programme
- Increase in quarterly cash dividend by 4% to USD 0.27 per share, and launch of an around USD 675 million second tranche of the share buy-back programme, subject to approvals by the annual general meeting

“Record high production, reduced costs and continued strong capital discipline contributed to solid results in a quarter with lower commodity prices. For the year we delivered competitive returns and strong growth in capital distribution. Going forward, we expect to grow production, returns and cash flow from a world-class project portfolio, representing 6 billion barrels to Equinor with an average break-even oil price below 35 dollars per barrel. The board proposes an increase in the quarterly dividend of 4% and the launch of the second tranche of our 5 billion dollar share buy-back programme, based on an even distribution for the rest of the period,” says Eldar Sætre, President and CEO of [Equinor ASA](#).

“We started production at Johan Sverdrup in October last year, ahead of schedule and more than 30% below the original cost estimate. We expect the entire phase 1 investment to be paid back already by the end of this year, less than 15 months after the first well was put in production,” says Sætre.

“2019 was truly a game-changing year for our renewables business. We made the investment decision for Hywind Tampen in Norway and won the opportunities to develop Empire Wind offshore New York and Dogger Bank, the world’s largest offshore wind development, in the UK. Renewables projects in development will add 2.8 gigawatts of electricity capacity to Equinor, more than five-fold our current capacity,” says Sætre.

Adjusted earnings [5] were USD 3.55 billion in the fourth quarter, down from USD 4.39 billion in the same period in 2018. Adjusted earnings after tax [5] were USD 1.19 billion, down from USD 1.54 billion in the same period last year. Lower prices for both liquids and gas impacted the earnings for the quarter.

Adjusted operating costs and administrative expenses were down 8% from the same quarter last year. The Marketing, Midstream and Processing segment reported strong trading results and obtained high prices in a challenging market. Results in the E&P International segment were impacted by low US gas prices, higher field development costs and higher than normal expensing of previously capitalised exploration costs.

IFRS net operating income was USD 1.52 billion in the fourth quarter, down from USD 6.75 billion in the same period of 2018. IFRS net income was negative USD 0.23 billion in the fourth quarter, down from positive USD 3.37 billion in the fourth quarter of 2018. Net operating income was impacted by net impairment

charges of USD 1.41 billion, of which USD 1.28 billion relates to assets on the Norwegian continental shelf, mainly as a result of change in method for including tax uplift in impairment evaluations.

For the full year, adjusted earnings [5] were USD 13.5 billion, down from USD 18.0 billion in 2018. IFRS net income was USD 1.85 billion, down from USD 7.54 billion in 2018.

Equinor delivered record high total equity production of 2,198 mboe per day in the fourth quarter, up 1% from the same period in 2018. The flexibility in the gas fields was used to defer production into periods with higher expected gas prices. Successful start-up and ramp-up of new fields as well as new well capacity, contributed to growth in production. The Johan Sverdrup field was put in production 5 October 2019 and is currently producing more than 350.000 barrels per day from eight wells. The field is expected to reach plateau during the summer of 2020.

As of the end of fourth quarter 2019, Equinor has completed 42 exploration wells with 18 commercial discoveries. Adjusted exploration expenses in the quarter were USD 0.44 billion, compared to USD 0.42 billion in the same quarter of 2018.

The organic proved reserve replacement ratio (RRR) was 83%, with a three-year average of 140%. With 6 billion barrels in proved reserves, Equinor's reserves to production ratio (R/P) was 8.6 years.

Cash flows provided by operating activities before taxes paid and changes in working capital amounted to USD 21.8 billion in 2019, compared to USD 27.6 billion in 2018. Organic capital expenditure [5] was USD 10.0 billion for 2019. At year end, net debt to capital employed [1] was 23.8%. Increased oil volumes in transit to capture higher value and accelerated tax payments in Norway impacted the net debt ratio with an increase of around two percentage points. Following the implementation of IFRS 16, net debt to capital employed [1] was 29.5%.

The board of directors proposes to the annual general meeting to increase the dividend by 4% to USD 0.27 per share for the fourth quarter. Equinor is on track with executing its share buy-back programme of up to USD 5 billion over a period until the end of 2022, and will launch a second tranche of USD 225 million in the market, corresponding to around USD 675 million including the Norwegian State share, from around 18 May to 28 October 2020, subject to renewal of authorisation to execute share buy-backs at the annual general meeting.

Average CO₂-emissions from Equinors operated upstream production, on a 100% basis, was 9.5 kg per barrel in 2019.

The twelve-month average Serious Incident Frequency (SIF) was 0.6 for 2019, compared to 0.5 in 2018. The twelve-month average Total Recordable Injury Frequency (TRIF) was 2.5 for 2019, compared to 2.8 in 2018.

Capital markets update

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

- Growing production, cash flow and returns:
 - – Expecting around 7% production growth in 2020 and to deliver an average annual production growth of around 3% from 2019 to 2026
 - – Capacity to generate around USD 30 billion in organic cash flow [2] from 2020 to 2023, after taxes and organic investments, and around 15% return on average capital employed (ROACE) [5] in 2023, at an assumed oil price of USD 65 per barrel
- Driving long term value creation in line with the Paris Agreement. Equinor aims to:
 - – Strengthen its industry leading position on carbon efficient production, aiming to reach carbon neutral global operations by 2030
 - – Grow profitably within renewables, developing as a global offshore wind major
 - – Reduce the net carbon intensity, from initial production to final consumption, of energy produced by at least 50% by 2050

"Equinor is already delivering competitive returns, and we expect to grow production, returns and cash flow going forward. We are investing in a world class project portfolio coming on stream towards 2026, representing 6 billion barrels to Equinor with an average break-even oil price below 35 dollars per barrel. In addition, Johan Sverdrup phase 1 will contribute to strong growth at the Norwegian continental shelf. High quality projects like Bay du Nord in Canada, Rosebank in the UK and BM-C-33 and Bacalhau in Brazil will deliver high profitable growth internationally," says Sætre.

During the last few years, Equinor has substantially strengthened its competitiveness and improved its project portfolio. Equinor is today increasing its ambition, aiming to achieve improvements with a cash flow effect of more than USD 3 billion from 2020 to 2025 through digital solutions and new ways of working. Equinor delivered industry leading unit production cost of USD 5.3 per barrel in 2019, and is targeting a 5% improvement towards 2021.

The ambition to reduce net carbon intensity by at least 50% by 2050 takes into account scope 1, 2 and 3 emissions, from initial production to final consumption. By 2050 each unit of energy produced will, on average, have less than half of the emissions compared to today. The ambition is expected to be met primarily through significant growth in renewables and changes in the scale and composition of the oil and gas portfolio. Operational efficiency, CCUS and hydrogen will also be important, and recognised offset mechanisms and natural sinks may be used as a supplement [3].

In 2026, Equinor expects a production capacity from renewable projects of 4 to 6 GW, Equinor share, mainly based on the current project portfolio. This is around 10 times higher than today's capacity, implying an annual average growth rate of more than 30%. Towards 2035, Equinor expects to increase installed renewables capacity further to 12 to 16 GW, dependent on availability of attractive project opportunities. Equinor expects to achieve unlevered real project returns of 6 to 10% and can achieve significantly higher return on equity investments through portfolio optimisation and efficient use of project financing.

"Today we are setting new short-, mid- and long-term ambitions to reduce our own greenhouse gas emissions and to shape our portfolio in line with the Paris Agreement. It is a good business strategy to ensure competitiveness and drive change towards a low carbon future, based on a strong commitment to value creation for our shareholders," says Sætre.

"Equinor's strategic direction is clear. We are developing as a broad energy company, leveraging the strong synergies between oil, gas, renewables, CCUS and hydrogen. We will continue addressing our own emissions in line with the emitter pays principle. But, we can and will do more. As part of the energy industry, we must be part of the solution to combat climate change and address decarbonisation more broadly, in line with changes in society," says Sætre.

Finally, Equinor announces its updated outlook:

- Equinor expects average annual organic capex [5] of USD 10-11 billion in 2020 and 2021, and around USD 12 billion for 2022 and 2023
- Equinor expects to deliver around 7% growth in production in 2020, and an average annual production growth of around 3% from 2019 to 2026 [7]
- Equinor expects exploration activity of around USD 1.4 billion in 2020 [4]

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

[2] Defined as cash flow from operating activities after tax before working capital and after organic investments.

[3] See Forward-looking statements.

[4] Excluding signature bonuses and field development costs.

[5] See note 8 Changes in accounting policies 2019 to the Condensed interim financial statements.

[6] For items impacting net operating income, see Use and reconciliation of non-GAAP financial measures in the Supplementary disclosures.

[7] For more information, see note 2 Segments to the Condensed interim financial statement and notes.

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This information is subject to the disclosure requirements pursuant to Section 5-12 the Norwegian Securities Trading Act

Attachments

- CEO presentation CMU2020
- CFO presentation CMU2020
- Fourth quarter 2019 Financial statements and review
- Press release fourth quarter 2019 and year end

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