

Equinor ASA Autumn Conference IR Seminar

Event Date: 2018-11-20T12:25:00 UTC

Event ID: 139329373113

C: Åshild Hanne Larsen;

C: Eirik Wærness; Chief economist and senior vice president MMP Macro and Market Analysis

C: Elisabeth Aarrestad; Vice President Market Analysis

C: Morten Haukaas; Chief Accountant

C: Peter Hutton; SVP of Investor Relations

P: Anders Torgrim Holte; Kepler Cheuvreux, Research Division; Equity Research Analyst

P: Anne Gjøen; Handelsbanken Capital Markets AB, Research Division; Head of Equity Research

P: Christian Yggeseeth; Danske Bank Markets Equity Research; Analyst

P: John A. Schj. Olaisen; ABG Sundal Collier Holding ASA, Research Division; Joint Global Head of Research

P: Pål Vinje, Norges Bank

P: Jørgen Bruaset, analyst, Nordea

P: Oddvar Bjørgan, analyst, Carnegie

Presentation:

Peter Hutton:

Good afternoon, ladies and gentlemen. Thank you very much for joining us here today at Equinor's Autumn Conference. Thank you very much for everybody who's made it the event in Oslo. Thank you very much also to those who are watching or listening to this on the website. I'll just introduce the speakers very, very quickly. Before I do that one, I have a very short announcement relating to safety for those of us in the room today. If an evacuation should be necessary, we should enter the staircase to the right of the elevator near the meeting room. So just through there.

Here's the good news, walk down 7 floors to the street level, you'll be glad to know that there are no fire drills planned for today. So if it does happen, it is for real. So walk down the 7 stairs. It says here, onto the sidewalk, but I'm English, so you walk onto the pavement, across the street at the back of the Parliament building, Stortinget, okay? Thank you for that.

Okay, so this is something that we do every year, and it's always a really good opportunity to meet everybody, particularly in Oslo. It's an opportunity for us to give a bit of an update on some of the things that are impacting the business and some things, provisionally, before another event, which will be coming up on the 6th of February, which is the Capital Markets Day, okay? We've got a series of 4 presentations and then we'll have a question-and-answer session. And we'll be doing questions-and-answers from the floor and also for those who are not able to join us today, e-mailing questions through to me and then I will ask those questions from the floor, okay?

So we've got 4 speakers from Equinor here today, and I'd like to say thank you to those people straightaway. We've got Eirik Wærness, our Chief Economist, who's going to give us an update on the oil market, which shouldn't take long. Nothing is really happening at the moment. It's all very, very quiet. No volatility at all. Elisabeth Aarrestad, on the gas market, much the same, very, very quiet. Nothing happening at all. Then, we've got Morten Haukaas, who's the Chief Accountant. He is a very long serving expert in accounting. He's going to talk to us about IFRS 16, which is something which is starting at the beginning of next year and something that you need to be aware of. And then, Åshild Larsen, who's the Chief Information Officer, who's going to give you an update on digitalization and all the things we're doing in Equinor on that front.

So let me immediately move away and let Eirik take over. Thanks, Eirik.

Eirik Wærness:

Thanks, Peter. Good afternoon, everyone. Good to see you and good afternoon to everybody on the big World Wide Web. My name is Eirik Wærness, I head up macroeconomics and market analysis and serve as the company's Chief Economist and I'm also Head of Strategy in our mid and downstream business, and I'll be talking about macroeconomics and oil; and then my good colleague, Elisabeth, who heads up market analysis, will cover the gas markets as Peter said.

What is interesting now, I guess, is that there's a close relationship, there's more than usual connection between what's happening or what's worrying market observers on the macroeconomic side and what's happening or worrying us in the oil market side. There always is a connection, but particularly so now in terms of geopolitical hotspots, impacts of foreign exchange movements, relating then the impact via the oil price on emerging economies growth, et cetera, et cetera. There are worries about trade, which relates to topics that we, on the macroeconomic side, call protectionism, and we're worried about it; but on the oil side, we call it sanctions, and we're worried about it. And basically, it's one and the same. It affects different countries and it has different impact, but it's a lot of the same topics.

Here, I get a message that the battery is soon empty. I hope that will -- renewable electricity for you. Then the usual, don't believe everything I say. We think that like many others, in terms of global GDP growth that, that the temporary peak, as we macroeconomics -- macroeconomists would call it is most likely just where we are now or possibly behind us. We will see global GDP, global demand growing, driven, in particular, by the United States, but there are increasing and significant imbalances in the global economy with increasing risks also for global GDP growth going forward. And in particular, that's associated with the development in some key emerging economies and with the trade risks, the trade tensions and the potential impact that has on global GDP. And therefore, most of us who forecast, we foresee a slightly lower global GDP growth going forward. And in our case, we have ended up finalizing our forecast for 2018 at 3.1% global GDP growth and going slightly down to 2.9% next year and then again, to 2.8% by 2020.

When you look at the global oil demand curve to the right, I mean, we're getting used to oil demand growth. And I guess, if we have a slightly longer perspective, it's relatively hard for us that still can remember that, that oil demand 20 years ago was 20%, or 20 million barrels per day lower than it is today. It's an important perspective when you think about also forecast looking at the possibilities of reducing oil demand going through 2030, 2040, 2050. We shouldn't forget that just over the last 20 years it has actually increased by 20%. And it has grown 14 million barrels per day since the financial crisis, which is only 10 years back. So this is a significantly growing market. And getting out of oil, if somebody believe that is possible, is going to take a lot of changes, and you heard some of the challenges for those of you who were at the autumn conference earlier today.

The impact of higher oil prices, lower or weaker growth in the emerging economies and the strong dollar that we see at the moment are all factors which could indicate a slightly lower oil demand growth going forward. Now that dotted line there is becoming less steep. And then back to the strong dollar. That has particular impacts on emerging economies, some emerging markets are seriously under pressure, driven by the strong dollar, particular -- partly that. It's particularly visible in some large emerging economies like Argentina and Turkey and, to some extent, also countries like Brazil and South Africa. Typically, countries that have so-called twin deficits, they run a fiscal budget with a very large deficit and at the same time, they have a negative trade economy -- negative current account balance. So they have public budgets that don't balance, therefore, they have -- with the dollar coming up and the interest rates coming up, the debt becomes more expensive. And with the dollar coming up, with very large current account deficits and partly driven by energy imports, their imports become more expensive as well, leading to inflation in some instances to a significant need to tighten fiscal budgets, which is extremely unpopular and which, in a situation where you have a lot of political uncertainty, like we still have in Brazil, like we will have and will see in Argentina before the next year's election and Turkey, has severe implications on the ability to actually do something about these twin deficits.

And with the expensive energy imports then, you will see lower demand growth from these economies, both because of the ability to pay but also because of the tightening -- potential tightening of fiscal budgets. And that then contributes to uncertainty on global economic growth, so both in terms of global

GDP but also the growth in oil demand. So those are some of the factors that play into both sides of the equation, both the macroeconomic picture and the demand picture on the oil side.

Then I thought I would spend a little bit of time on a topic which is not very often talked very much about, but it's significant -- there's a significant interest around it and a lot of contagious debates on immigration and in the current political climate also pushing, probably, some elections into a much more protectionist populist result than what we otherwise would have seen and thereby, and by implication, could have implications for global economic growth going forward. Unrest, violence and inequality contribute to migration and immigration, and it affects politics, both here in the EU and in the U.S. And note the chart to the left just illustrates that within region, immigration is much larger in numbers than the across region immigration, even though it's the latter that we most often focus on. But the number of people moving within integration -- within regions are -- is very large as well.

And then on the economic side, it's important to realize that immigration, when it happens, has both positive and negative impacts on the receiving economy, both in the short and long term, both in terms of growth, in terms of costs, demographic changes and the implications of demographic changes, things like long-term unemployment is a big uncertainty, things like the impact on long-term productivity is also a big uncertainty, and it depends on how it's handled, whether it will be a good or not-so-good impact on the receiving economy.

In terms of the economy that experienced emigration, in order to avoid significant brain drain in a globalized setting that -- I mean, just to avoid a significant brain drain associated with large emigration should be a priority. But of course, as long as we do not deliver on a number of sustainable development goals, we cannot foresee or hope that the pressure for emigration would abate. And just imagine, I'm just going to list a couple of -- or some of the sustainable goals that we will have to deliver on in order to have any hope of stymieing large emigration flows. Goal number one, no poverty; goal number two, 0 hunger; goal number three, good health and well-being; goal number four, quality education; goal number five, gender equality; goal number six, clean water and sanitation; goal number seven, affordable and clean energy. And you can go on and on. Basically, if we do not solve most or all of these sustainable development goals, immigration will continue to be an issue, both in the receiving economies but also in the economies that experience significant brain drain. And it will impact macroeconomic development, both up and down and also politics.

Escalation of trade tensions. You see the fat Chinese dragon and the tiny little U.S. eagle there, right? And the Eagle thinks that the Chinese dragon has put on weight recently. The combination of an increasingly visible and ambitious China on the international scene and an increasingly protectionist U.S. administration is a serious concern for global trade and the impact it might have on economic growth going forward. And then, of course, that, in itself, reinforces the worry that the U.S. withdrawal from international trade agreements in and by itself implies. And if we are to experience a tit for tat trade war driven by tariffs, we will see a significant reduction in global growth in all kinds of demand components and then also a significant impact on oil demand. In isolation, the current situation with the tariffs that have been introduced, mainly on the Chinese side, mainly in our setting, in our market, mainly impacts oil product demand, and since oil product demand from the United States to China is very small, the impact will be very little. But if the trade war were to continue then to start impacting crude imports, it could have significant impact because 20% of the U.S. crude exports go to China. So all of this, it's a scaling problem depending on how serious and how important these different types of trade protectionist developments, how they go, whether it's going to be a serious problem or not for oil demand.

And then we have the sanctions issue, and we will see that the Iranian sanctions will leave a mark on the oil market. We've been through a period of Iranian sanctions before in the period after 2015, tried to illustrate that in the left chart, and then we got in 2014, we had the Russian sanctions come in, and they're still in place. And on a global scene, with a lack of trust, these types of sanctions is -- they were important and the impact that it might have on the oil market depends on how the situation is in the market to start with. If you're in a market which is very worried, whether the issues like very low spare production capacity plays a role for price setting where the storage levels are at normal levels and not very high, et cetera, et cetera, they could have a significantly larger impact, the worries about sanctions

and the impact of them, larger impact than if we were in a situation where storage levels were high and we didn't worry as much about spare capacity et cetera, et cetera. It's in the setting. It goes then that, that determines the impact on the oil markets. And in the case of Iran, we've seen low economic growth during the periods -- the previous period of sanctions. We got -- the oil exports -- exports picked up again in 2015 after the lifting on the sanctions. And now we see the sanctions coming in, that will have an impact on exports and we see how we estimate the impact on our net exports going forward. Of course, the worry then is of course that, that is combined with less foreign investments in Iran and continued depreciation of the currency and inflation.

In the case of Russia, we have been in sanctions since 2014. They've been helped by their own depreciation of the currency and of course, subsequently, also the rapid increase in oil prices and the ability to continue to produce at record levels. So in the Russian case, after a period -- short period with very low economic growth, they've been coming up again, and then, of course, we don't know what that's going to look like going forward.

So and then looking at where will the global market be balanced between supply and demand going forward, we're at a point of change. Last year, 2017, was a year with a lot of focus on supply: will there be enough to satisfy the demand growth? It wasn't and, as a consequence, storage levels came down. But we were still in a situation during that year where storage levels were high, very high compared to normal levels. Now they're balanced and we've turned into a demand focus because the supply seems to be ample now and as I said, both the protectionist worries and some other impacts from the lower growth in the emerging economies creates a worry for whether demand growth will be sufficient to satisfy supply, of course. So it generally, we're looking at a market that is more balanced than it was last year going forward and where we will see a softer balance at the beginning of next year than what we've seen. That fundamentally should lead to a lower price level than we otherwise would have. Whether it will lead to a lower price level depends on all the other things that affect prices beyond the fundamentals. And generally, now -- in a situation we're now, with the type of volatility drivers that are out there, generally the market reacts too strongly. \$85 in October was probably too high. \$65 now is probably a bit too low. So how the market, the actual market price moves when the fundamental changes is difficult to foresee.

What are we going to -- what should we look? Well, we should take a look at how the Iranian sanctions, how efficient they will become, that's a supply-side thing to look for. We should look at how the bottlenecks in the Permian develops and how that affects the actual output of shale to the global markets, and they believe that those bottlenecks will basically be removed sometime during next year, second half of the year. Now what happens to OPEC, OPEC production growth, or not. And then, of course, we will see some signals about the OPEC/Russia/other countries type of cooperation going forward, and whether they will continue to aim for a price in the range of \$70 to \$80 and what does that mean for their own production growth. And then, of course, since we are in a situation with very high uncertainty on spare production capacity, and we always have some supply disruptions, be prepared for continued high volatility.

So then to sum up, on the global oil market, these are some factors that tend to move price signals up or down or not. And then we've shown those both in the short, sort of the current situation, where are we now; and sort of over the next couple of years, 2, 3, 4 years, what would we expect. And in general, we've had several drivers that have been contributing to lifting the prices throughout the last year, both in terms of global oil demand, the interventions from OPEC, plus the continued level of supply disruptions and the fact that commercial inventories have come down. That has been partly balanced by continued growth in global shale production and then the general level of non-OPEC production has neither moved the needle up or down, we think. Going forward, some of these factors that would -- that helped will be less important and some will become more bearish, if you like. Things like we foresee growth in non-OPEC production, that will contribute to push the fundamental level down. We think that the OPEC interventions will become less prevalent, less important and then contribute to more of a balance in the market as an example. And then the fact that commercial inventories now do not decline anymore, will continue to balance the market. So generally, a slightly more bearish outlook, if you like, for the medium term compared to what we have seen this quarter. But when you look at the variation

here, I mean, this type of volatility has nothing to do with fundamentals. So you have to call your colleagues who are involved in the paper trail and say, what are you doing? There's nothing in the oil market that calls for this type of variation, not only within a quarter but within a month. So -- and that's the kind of situation we should continue to expect to be in, whether we -- I mean, if we can establish a view on the fundamental price being \$70, \$75 for the next quarters, if you like, then don't be surprised if it goes to \$90 or if it falls to \$65. And until the rest of the market sort of understands that, we should look for the fundamentals and not for the events and the papers and whatever, then continue to expect a lot of volatility and, in particular, since the spare production capacity is relatively low.

So thank you. And with that, I give the word to my colleague, Elisabeth.

Elisabeth Aarrestad:

Thank you, Eirik, and good afternoon, everyone. I will -- through my 20 minutes here, I will take you through the recent developments in the global gas markets. I will take a look at some of the key drivers as well as share some expectations for the future for the gas market. But I will start by looking at the recent developments and highlights in the global gas markets through 2018.

In the U.S., the production is still growing at a rapid pace with 2018's year-to-date average being 9% above the 2017 average. On the 31st of October, we saw a new daily record gas production of above 2.4 billion cubic meters per day of gas production in the U.S. and this has led to an average price so far this year of USD 3 per million BTU.

The gas exports, both pipeline exports to Mexico and via LNG are picking up. The demand for LNG feed gas so far this year has averaged more than 90 million cubic meters a day, which is a 45% increase from last year. And the pipeline exports to Mexico has averaged more than 130 million cubic meters per day, which is an 11% higher than last year.

The U.S. will enter this winter with low storage levels, below the 5-year average. And this has caused the natural gas prices to rally lately, which will limit further coal-to-gas switching over the winter period. The rally through the last couple of weeks have elevated Henry Hub to above USD 4.7 per million BTU, at least on some days. And this is driven by cooler-than-normal weather for the season as well as concern about the low inventories for this winter.

During the first 9 months of 2018, natural gas continued to outcompete coal based on price, and it forced existing power generation capacity to switch to gas. However, with prices above USD 3.5 per million BTU, the cost competitiveness of the gas is under pressure.

The Asian spot LNG prices have followed the increasing oil price earlier this year as well as the European gas prices to a higher level. The Asian spot prices need to maintain a spread over European gas prices to attract enough LNG to meet the strong LNG demand. In China, our government policy on emissions has led to a significant increase in the LNG requirements and the demand growth in China alone is 17 bcm year-to-date. The Chinese gas demand growth is subject to success of policy to displace coal with gas in the power generation as well as space heating and industry.

The warm weather has been an important factor for the European gas prices as Northwest Europe experienced one of the hottest summers in history. Consequently, we have seen high cooling demand and in addition, a rallying energy complex, pushing the gas prices higher. Storage injections have also been above average levels in Europe through the summer. As a result, NBP and TTF average price for third quarter '18 was USD 8.4 per million BTU, up USD 3 per million BTU year-on-year or an increase of more than 50%. Also, in 2018, we have seen limited LNG available in Europe. And reduced indigenous supply in Europe has led to increased pipeline imports, both from Russia and North Africa. In addition, the pipeline imports from Norway has been strong but show a minor decline year-on-year.

The pace of the production growth in the U.S. has had market implications. Historically, the U.S. has been a gas island and had to consume what it produced, with limited interconnections with Mexico and Canada. In an oversupplied gas market, like we have seen the last few years, the market has 2 choices

for surplus gas. Firstly, to put gas into storage, which is limited by capacity; or secondly, the gas can price lower to displace coal in the power sector. Given the fast pace of production growth, gas prices has moved lower in recent years to incentivize higher gas use in the power sector. This has been a very useful way to clear surplus gas in the U.S. market, but it's not price supportive. Given higher production and lower prices, there has been a big push to export higher volumes of U.S. natural gas into global markets given the arbitrage opportunities this has presented.

As seen by the green bars on the top, there has been growing volumes of export by pipeline to Mexico as well as higher volumes of LNG exports, which started from the U.S. in 2016. Such higher export volumes have helped to support price levels. But in general, price-supported demand is struggling to keep up with the production growth. Right now, the U.S. market is around 820 bcm, including the exports, and we see that market growing to around 1,200 bcm by 2030 or an increase of 50%.

Moving over to Europe. The EU gas demand has experienced a strong recovery in the last years from 2014. The demand in Europe has continued to gain from cold switching within the electricity sector over the last few years. Gas prices in Europe became more competitive with coal during 2016 and 2017, and there have been incentives to run gas-fired plants ahead of coal-fired units, also when you include the cost of CO₂. This can be seen from the coal-switching range on the right-hand graph. The strong economic recovery in the Eurozone has also pushed up gas demand in the manufacturing and industry sectors. Further, a more normal winter temperatures has also led to increased consumption from the heating sector. A continued growth in demand reached a top of around 470 bcm in 2017, when we had record low rain falls in combination with low nuclear availability which, again, led to an increase in gas-to-power demand of around 6% in Europe. On the coal-to-gas switching range graph at the right, you can see that the gas price was within the coal-to-gas switching band throughout 2017.

Gas-to-power demand has been lower year-on-year 2018 for the first 6 months due to less competitive gas versus coal prices. But in Q3, the demand picked up again, when Northwest Europe experienced one of the hottest summers in history. Gas-to-power is also expected to increase in absolute terms in Q4 despite the gas prices, but it will continue to be below last year's level.

Looking ahead, Germany will start phasing out its nuclear fleet from 2019 and onwards, finishing its nuclear exit in 2022. In addition to that, in an attempt to improve Germany's poor emission reduction record and to identify economic perspectives for people employed in the waning coal industry, the German government has set up a coal commission tasked with managing the definite phaseout of coal-fired power production in the country. By the end of this year, the commission is to present to the government a final report that is to include a coal exit date in Germany. The nuclear phaseout in Germany as well as potential agreement to decommission coal and lignite plant will make room for gas to fill some of this future Germany energy gap.

The declining indigenous production is making Europe increasingly more important on -- increasingly more import dependent. The overall EU production levels have dropped significantly over the last 5 years, as you can see in the red color in the bar chart. In sum, we believe that the indigenous production will be reduced to 80 bcm by 2022, which is half the volume we saw in 2012. Whilst the U.K. continental shelf has increased slightly, it has been the Groningen's output issues that have reduced the overall numbers in Europe. Groningen produced just about 20 bcm in gas year 2017, which is 1.5 bcm below the production cap for that year. The cap for the current year is 19.4 bcm. The earthquake activity has continued and, therefore, the state supervision of mines has advised the government to reduce production from the field to 12 bcm as soon as possible to minimize the seismic activity in the region.

On the U.K. continental shelf, the production is expected to peak in the near term and enter into decline. The year-to-date production from U.K. was reduced with more than 1 bcm compared to 2017. The gas production is expected to be around 38, 39 bcm in 2018 and '19 and thereafter, decreasing rapidly in 2020 and '21.

However, a new U.K. discovery by Total in September 2018, the Glendronach prospect, just outside of the Shetland, may contribute to 10% of the UK's annual gas production level in its early years. The

Glendronach field will be tied back to the existing infrastructure and developed quickly and at a low cost. This discovery is welcome news, since exploration in the U.K. has been a concern so far in 2018 with just 5 exploration wells spudded to date.

We expect that the production from the Danish continental shelf will fall with 3.5 bcm from December next year until 2022 due to the redevelopment of the Tyra field. The Tyra field, which is the center of Denmark's national energy infrastructure, is processing 90% of the nation's gas production. It's being redeveloped to ensure continued production from Denmark's largest gas field for another 25 years. The production is planned to commence again from the redeveloped Tyra field in July 2022 and is expected to deliver around 2.3 million cubic meters a day of gas. The facility is expected to be able to produce enough gas to supply 1.5 million Danish homes at peak production, in addition to providing support for the Danish economy.

Both the Russian and Norwegian pipeline supply were strong in 2017, which was needed to cover the supply gap in Europe. The total Russian deliveries year-to-date is 124 bcm versus 120 bcm in 2017, or almost 3% increase. The Russian deliveries to Northwest Europe in Q3 this year alone, amounted to 59 bcm versus 50 bcm in 2017, and we do expect a continued high gas export to Europe from Russia also going forward. The NCS delivered to Europe was 84 bcm year-to-date, slightly reduced by 2% compared to last year. The NCS flows are expected to remain at the record levels of around 160 bcm going forward.

North African flows have also been increased, supplying the Southern European region. North African deliveries to Europe was 28 bcm year-to-date, increase of 6% year-on-year. Some reduction in supply of the pipeline from this region is expected going forward, as a result of local gas demand increase and lack of upstream investments.

Overall, the supply gas in Europe is still growing, as indigenous production is declining, and we foresee a flattish demand development going forward. Over the coming years, it is expected that Russian gas will constitute 35%, 36% of the market share on Europe; the NCS gas, 24% to 25% and 10% to 15% will be covered by LNG. It is expected that LNG will increase from the current level of just below 50 bcm to 70 bcm in 2022. The world needs more gas and more gas projects taking financial investment decisions and the regions that need it the most have a general poor prospect for domestic production increase where pipelines will be expensive to build and the consensus view amongst consultants is that there will be a call on LNG to fill an increasing supply deficit globally.

Global LNG supply grows steadily and have increase by 8% or 32 BCM in 2017 and we expect it to add another 8-9% in 2018. In 2025 we foresee a liquefaction capacity of above 600 bcm.

In the medium term, we believe that the global LNG supply will grow faster than demand, hence a downward price pressure is expected, which again will spur new demand, and prices will increase again. In the period 2023-25 global LNG demand catches up with supply and we expect a transition towards a tighter market balance again. In 2025 we believe that new LNG supply will be required to meet demand. A new wave of project sanctions for new liquefaction will be necessary. In order for this wave to be on stream in time, we need to see projects reaching final investment decisions this year, next year and the year after. So far this year only two projects have taken FID: Corpus Christi train 3 as well as the Canada LNG.

Asia's LNG growth has continued unabated and the impressive y/y growth of 2017 will be surpassed in 2018 as you can see on the graph. Strong Asian LNG demand has absorbed all the new global supply to date. Asia is also pulling LNG away from Europe in 2018, including from Southern Europe that consumed a lot of LNG last year and we have seen higher reexport from Europe in 2018 than previously.

There are large uncertainties related to Asian gas demand. In the near term all eyes are on China. This is mainly attributable to the strong policy push for coal to gas switching in industry and buildings as part of the drive to turn China's skies blue again and to improve air quality. Chinese demand is also strongly

influenced by lack of underground gas storage resulting in highly seasonal import patterns. But can we expect this to continue and what about the rest of Asia.

The introduction of similar policy measures in other Asian countries would translate into higher gas use and any retreat from policy favouring gas would have the opposite effect. There appears to be plenty of room for further gas demand growth in Asia since gas is a fit for several purposes. However, the price of gas, the affordability, could be an issue and the structure of the gas demand in each importing country also. Security of supply is also a concern. While some markets may have a basket of supply options that include indigenous production and imports via pipeline and LNG, others may rely solely on a limited number of supply sources.

Finally, confidence in the reliable operation of international gas markets is an important variable for the future.

The European supply stack is a good illustration of what will set the price going forward. This stack is a simplification and it shows that lowest cost supply is the domestic supply, followed by the NCS supply and the Russian gas. The most expensive supplier to Europe is the global LNG. The future demand is one of the key uncertainties in Europe, but it will definitely be on the steep side of the supply stack as the blue band here illustrates. The marginal supply to Europe is within this band and defines the price level. An important source to flexibility in the stack is the amount of Russian supply to Europe. With more Russian supply in the stack, the stack expands to the right, meaning a lower price for the marginal supply to Europe. However, with LNG pulled towards Asia, some of the global LNG in the stack might be removed, strongly impacting the European price level as we move on the steep side of the stack. To sum up, we have prepared a matrix with the same illustrations as Eirik showed, with the various drivers and how they impact on the price.

The overall gas system in Europe is currently quite tight with high utilization of the available production and pipeline import capacity and such tightness also means that the flexibility is low and that the price will respond quickly to any changes.

In the current situation, in Q4, the European domestic production is declining. This is, to a large extent, due to the current fluctuations on the output from Groningen, and this decline provides an upward pressure on the price. The pipeline imports have been strong, both from the NCS and also record high from Russia. Such high import volumes have a negative price impact. In addition, until quite recently, we have had the situation with low storage levels, which also provide support to prices. However, this has now eased as we moved into Q4, and we now see a more neutral impact on price.

The demand for gas has been very strong especially in China, and the result is that very limited global LNG has been available to Europe which, again, has resulted in an upward pressure on price. Overall, for Q4, we expect the price to be relatively strong, but we may see large movements of the gas price due to tightness, low flexibility and also from weather effects.

Going forward, and into the medium term, our view for Europe is that: firstly, demand is expected to be rather flat; secondly, the pipeline imports will continue to be strong; and thirdly, new LNG supply will become available. In combination, this means that we expect a weaker market in the medium term and a downside price risk. However, we do see less surplus LNG supply than we did earlier and, hence, the downward price pressure is expected to last for a more limited time period going forward.

Thank you very much for your attention.

Morten Haukaas:

Thank you, Elisabeth. Good afternoon. My name is Morten Haukaas, I'm the Chief Accountant in Equinor. I know that everyone is excited about the new lease accounting standard, IFRS 16. So let me share some insights on how we expect to implement it and the related impacts on our accounts.

The standard will be effective as of January 1, 2019. That means it will be implemented as part of our first quarter 2019 financial statements. Information will, however, also be provided as part of our fourth quarter reporting and in our 2018 financial reporting. IFRS 16 will require companies to recognize lease liabilities on its balance sheets. Today, most of these leases are expensed as incurred. In addition, you will see significant changes in some reporting lines in net income and cash flow statements. But I will remind you, and this is important, there is no change to the underlying business and the cash flows. The change relates to how these contracts are reflected in the financial statements.

At year-end 2017, Equinor reported net operating lease commitments of close to USD 8 billion. If you simply add this number to the liability in net debt ratio calculation, it will increase net debt ratio reported as of third quarter 2018 by around 9 percentage points from 25.7% to around 35%. The direction is clear, IFRS 16 will increase the debt ratio. However, the impact will be different from the USD 8 billion just mentioned. This is due to specific rules and interpretations of the new accounting standards. So today, I will first give some comments on how Equinor plan to implement IFRS 16 and may impact from the standards. And thereafter, I will go deeper into some of the more technical accounting effects which is relevant for our sector.

There are 3 main impacts from the implementation of this new accounting standard you need to be aware of. One is the balance sheet effect. We will recognize lease assets and lease liabilities in the balance sheets. The lease liability will increase the gross financial liability. As a consequence, the debt ratio will increase.

Secondly, income statement. OpEx will be replaced by depreciation and interest, depreciation from the lease assets and interest from the lease liability. As we note, separate out an interest element, you will see an improvement of the net operating income compared to the current situation.

Thirdly, cash flow statement effects. Lease down payment will be presented as financing cash outflows. Today, these leases are presented as operating or investing depending on its use. This change in classification will improve the operating, the investing and the free cash flow measures.

So IFRS 16 will impact the financial presentation from 2019 and onwards. This includes our financial statements, debt ratio, the operating and free cash flows and calculated return on capital. However, the standard will not be implemented retrospectively. So the 2018 figures will remain unchanged according to the old standard for leasing. This is also how we expect other companies in industry to report.

To enable better comparison between 2018 and 2019 figures, we will provide additional transitional information for certain elements to describe the impact of the new standard.

Equinor lease portfolio consists mainly of drilling rigs, vessels, storage facilities and office buildings. Most contracts are relatively short term. Except for office buildings, we normally only commit to leased assets for a few years. This means that we have a significant turnover in our portfolio leases. We also use a significant number of pipelines owned by others. The pipeline contracts are normally considered capacity contracts and do not qualify as leases. Note also that mineral rights leases are outside the scope of the standard and will not be impacted.

IFRS 16 requires lease contracts to be capitalized. A service or capacity contracts are expensed as incurred. This means that the distinction between leases and a service or a capacity contract becomes more important. According to IFRS 16, we have a lease when the customer controls a specific assets owned by the supplier. If not, then it's not a lease. Let me take one example, the lease of a vessel. Equinor controls the use when we are the only user of the vessel, and then we direct how and where to use it.

Let me give you some direction for some of the more practical elements when implementing the new lease standard.

Equinor has decided to follow the main principle of IFRS 16 to capitalize the lease component only and to separate out and expense any service element as incurred. Many of the leases come with extension options, and the standard requires that option periods only shall be included if the option is considered reasonably certain. Equinor will also only recognize leases longer than 12 months as lease liabilities. The cost of shorter leases will be expensed as incurred.

Let us now dig into some of the more technical accounting elements which will impact our financial reporting.

One key characteristic of the use of leases in the oil and gas industry is that leases are used in both OpEx and CapEx activities. For example, drilling rigs in our exploration and production segments are normally used in CapEx activities, while transportation vessels and storage facilities in our midstream activity is normally OpEx. Other assets, such as office building and assets used across licenses like helicopters, land bases and supply vessels, are allocated to both CapEx and OpEx activities.

When using the leased assets in OpEx activity, we represent the cost of these leases as depreciation and interest. When using the leased assets in CapEx activity, the cost will be allocated to the new asset being developed and considered part of the cost of these assets. When we use a leased drilling rig to drill a production well at Johan Sverdrup, the drilling cost is part of this investment. At first, the lease cost will be expensed over the production life of Johan Sverdrup in the same way as today.

There will also be effects in the cash flow statement when the leased asset is used in CapEx activity. Today, these lease payments are presented as investing cash flows. Under IFRS 16, the lease down payments are to be presented as financing cash flow. When it comes to organic CapEx reporting, we plan to continue this in the same way as current reporting. The cost of a lease used in CapEx activities will be reported as organic CapEx in the period when the service is provided and not when the contract commences and the leased asset is recognized.

Thank you, Erik.

When it comes to the income statement note that IFRS 16 introduces currency volatility from leases in foreign currency. Most notably, when there are large currency movements.

The functional currency of our activity in E&P Norway is Norwegian krone. And all lease contracts in -- of the currency the NOK will have currency fluctuation from evaluation every quarter.

Let me give an example.

A rig lease contract with a USD 100 million lease liability will be recorded at NOK 800 million at exchange rate of NOK 8 per U.S. dollar, while in a subsequent period, the liability will be reduced to NOK 700 million if the exchange rate goes down to NOK 7 per U.S. dollar. Based on the rule, the asset side of the lease liability will remain unchanged in local currency from period-to-period. In this situation, we will present a currency gain of USD 14 million in the group accounts. This effect will come also when the leased asset is used in CapEx activities.

Similarly, we have Norwegian kroner office leases in Equinor also where we have U.S. dollar as functional currency.

When an operator enters into a lease contract to be used on a license, who is really the customer in the lease contract? And who should account for the lease liability? The conclusion of this question can significantly impact how different contracts are accounted for by the operator on an oil and gas license. Similarly, it is not yet concluded whether or in which situation a non-operator should record any liability related to the lease.

The industry considers the substance of these contracts is that all license participants share the risks for these liabilities. This is reflected in how we present these cost and lease commitments today with each partner's lease costs recognized on a pro rata basis or net presentation.

The IFRIC, or the International Financial Reporting Standards Interpretation Committee, recently issued an interpretation related to this topic. It stated that whoever has that primary legal responsibility for the external lease payments should then reflect the full liability in its balance sheet. This interpretation, if approved, will lead to more leases being reported gross on a 100% basis by operators. It is also uncertain how non-operators should account for their share. Equinor believes that the legal setup on the Norwegian continental shelf supports a net presentation for certain contracts as the operator is considered to represent the partnership when signing a lease contract on behalf of a license. Some leased assets will, however, be reported gross by Equinor like helicopter, supply vessels and bases. These assets are used across operator licenses because Equinor controls the use of these assets, not the license. The right to recharge all cost on a no-gain, no-loss basis, it's not itself a proper basis for net presentation. Today, these costs are presented net. But going forward, Equinor will present these costs gross while the related partner recharge will be recognized as a service to the license. Equinor is still assessing our contracts, and we have not finally concluded our approach if the IFRIC decision becomes final. This is the main reason why we are in a position to provide you with firm figures at this point in time.

Moving to the end of my presentation, I would like to share some comments related to comparability.

Financial leases have historically been capitalized for the purpose of making transactions which are similar in nature, comparable in the financial statements. There are no substantial difference between a purchased financial debt and a financial lease. The new standard was initiated to ensure more liabilities appear on the balance sheet. However, it does not fully solve the issue of current comparability for our industry. For example, they have the risk of different accounting between operators and non-operators within the same license.

Under U.S. GAAP, they implement a similar standard at the same time. Regardless, we will see differences between IFRS 16 and the corresponding new lease standard in U.S. GAAP which will be applied by our U.S. peers. Under U.S. GAAP, operating lease expense will remain presented as OpEx and operating cash flow as opposed to depreciation and interests and as financing cash flow under IFRS.

To summarize, IFRS 16 will have a significant impact on our financial statements and KPIs such as the debt ratio and free cash flow measure from first quarter 2019. Main uncertainty right now is whether operator shall record a license-related lease liability, gross or net. This is important for Equinor as a significant operator on the Norwegian continental shelf. Equinor will provide additional information in the first periods after implementation in order to show the underlying development of certain elements of our financial reporting. There will be differences between IFRS and U.S. reporting companies despite implementing more or less the same accounting standard. And that accounting standard implementation can be quite complex. Remember that the underlying business is unchanged. The cash outflows and cash inflows are the same, even though a new accounting standards is implemented.

Thank you for your attention.

Åshild Hanne Larsen:

Educated me at least on the mysteries of accounting standards. My name is Åshild Hanne Larsen, and I'm here to tell you a little bit about how IT, together with the business and the Digital Centre of Excellence is working to transform Equinor and the industry along with it.

Basically, heading up the IT function is, at least in my view, probably the most exciting job you can have. Perhaps you, Eirik, disagree. As the Chief Economist, you look pretty energized up here as well, but I happen to disagree with you.

Our main goal in IT is really to try to create value for the business, and we try to do that through focusing on 4 strategic pillars. And the 2 that you can see on the bottom, at least if you have good eyesight, safeguarding and enabling, are really the 2 that help us give us our license to operate and also support value creation in the business as it is today.

Safeguarding information and systems is all about protecting our people, our assets and our information about -- from digital threats. And as we know and probably most of you know, today the main attack vector is actually email, so we focus a lot on awareness related to that.

And to brag a little bit about what we're doing there, results of our awareness training are actually quite good. We recently participated in a global cross-industry phishing test with about 25 other companies where the average click rate was 11% and we came in at 2%. So I was a bit happy about that.

When it comes to enabling an efficient workday, that's all about increasing employee productivity, employee satisfaction by providing IT solutions that are accessible and user friendly. So important to create value today, but, of course, we also focus on how can we enable the business to prosper also in a digital future, what this value in that context look like. And that is where the 2 strategy areas on the top come into play.

Fueling is really about delivering an IT platform that is capable of unlocking the value of our data, and transforming is where we leverage new and existing IT to help digitalize and transform our business.

Technology trends actually present significant opportunities for our industry. In Equinor, we have a really long history of innovation and technology development and our industry is not new to this either. In fact, some would say that we invented the term big data when they used advanced simulation on big data sets from our reservoirs already in the '70s and '80s.

So the thing that really is new today is the fact that technology development moves so much faster and access to processing and storage capacity is now almost unlimited at an acceptable cost. What does that mean in practice? Well, it means that my wristwatch has significantly more compute power now than what NASA did when NASA 5 launched 2 humans out into orbit around the moon. It's a sobering thought, isn't it? In fact, looking at you here, my dear, with your smartphone, that now has more compute power than the entire capacity at NASA at the time of the moon landing. So huge changes.

When it comes to connectivity, the number of connected devices is really growing fast, and more and more industrial equipment even is now equipped with sensors and smart software that can generate data, capture it and is also connected to the Internet.

The amount of data itself is really increasing exponentially, so at least doubling every year so far. And the processing capacity in the cloud is now so good that we can see significant progress in both artificial intelligence and advanced analytics, and that presents us with some exciting opportunities. Today, we can actually analyze data and have machines learn from it in ways that no one thought was possible just a few years back. So I said, "Exciting times," and that's really true.

But again, some of those more concrete opportunities that this brings for the industry. First of all, we can improve safety and security by automating and removing people from work and risk zones. We can also reduce our cost base by automating manual and repetitive tasks. And we can increase our productivity and revenue by using data to make better and more informed decisions, for instance, about where to explore, where to put the well in the reservoir and so. We can also increase the uptime of our assets by using data. And last but not least, we can reduce our carbon footprint through more energy-efficient operations.

So what do we think is possible when it comes to realizing business value from these opportunities? Well, we have launched a company-wide digital road map and a Digital Centre of Excellence that both the business and we in IT work closely together with. And we have set and communicated some fairly clear ambitions on what it is that we want to achieve.

We want to be able to utilize data and digital tools to reduce the safety risks and the carbon footprint of our operations. We want to increase the value creations by \$2 billion on the NCS alone by 2025. We want to reduce drilling costs by 15%. Last year, we ran a pilot with Songa Enabler, which gave us 10% already in that pilot, so it should be feasible. We want to reduce CapEx for future field developments by 30% compared to conventional concept development. And also with a 50% potential OpEx reduction for certain unmanned concept options. In the U.S., we want to increase the net present value from our business by USD 500 million of added value. And I will touch upon some of the specific programs and activities that will help us deliver on this ambition shortly.

I mentioned the digital road map that we have. It consists of 6 programs that cut across our value chain. And as important, at least in my book, as the programs themselves are the 3 enablers that go across them that you can see in the middle there. I will discuss those with you as well in a bit more detail. But first, some concrete examples on what Equinor is working on within field of the future, data-driven operations, subsurface analytics and digital safety, security and sustainability.

First of all, I wanted to mention an operational planning tool that was launched a couple of months back. It's a digital tool for Oseberg to improve their risk management. The tool integrate safety and maintenance data from 5 different source systems into one solution. And in addition, we're using cognitive technologies and machine learning to extract learnings from our synergy system. That's where we capture all our incidents. So this gives us a much better view on risk. It has been a success in Oseberg, and we are now scaling the solution to other assets.

Another project that I wanted to mention is the digital twin. And the digital twin, of course, is a virtual representation of the asset that we use from early design all the way through building and operation. A digital twin can, in many ways, be seen as perhaps a bridge between the physical world and the virtual world, so to speak. What we do is use 3D models that are enriched with information in the field either on iPads or other types of tablets or on HoloLens, which is basically windows ten computer with 6 cameras, but it looks like a set of glasses that you put on. And in the office, we apply digital twins on normal desktops. What this does is increase the efficiency and collaboration and improves the quality.

Subsurface data lake. We are developing a data lake to improve the data accessibility and the analytical tools for our very competent subsurface population or community. And here, we do see some fairly radical opportunities actually to both discover more oil and gas resources as well as increase recovery from our existing fields.

Last but not least, we have remote operating centers for our onshore activities in the U.S. where we now stream live data from all of our 1,150 producing wells. What does that enable? Well, it means that we are now able to predict when the wells will experience issues so we can actually direct field personnel to them ahead of time to avoid the problem or fix it rapidly. We have also opened a similar center for the NCS in Bergen. The first assets went live during third quarter, Gina Krog, Grane and Åsgard, and the next steps will gradually include all the assets on the NCS as well as our onshore plants.

I promised to also take you through the 3 enablers that we think are key to succeed with our transformation journey. And the first one that is one that's close to my heart, it's all about how can we utilize our data better. And to be honest, when I came into this role about 3 years ago, we were in a situation where most of our data was stored in various IT systems and databases and silos, and it was pretty hard to get access to it.

So typically, you would see us spending about 80% of our time looking for the data and only 20% of the time analyzing it, which was not really where we wanted to be. And we do have a vast amount of industrial data, including subsurface data. At last count, it was around 30 petabytes. That is a number that can be a bit hard to relate to, but let me try to translate it for you.

So if we took our data and converted it into a playlist of songs, how long do you think it would take to play it if we started from song 1? Peter, I know you have an analytical mind. Maybe you would like to make an educated guess here.

Peter Hutton: (inaudible)?

Åshild Hanne Larsen: I would try again, if I were you.

Peter Hutton: (inaudible).

Åshild Hanne Larsen: 42,000 years.

Peter Hutton Close.

Åshild Hanne Larsen: Maybe in IR terms, that was close. But in IT terms, it wasn't even beginning to be close.

Peter Hutton: Close (inaudible).

Åshild Hanne Larsen:

Good point. But I appreciate the efforts, so thanks for that. But as the amount of data that we have access to will continue to grow exponentially, it is extremely important for us in Equinor to manage it and to take out the value from it. And to be able to do just that, we developed our data platform called OMNIA. It is a cloud-based hub where we wanted all of our data to be made accessible regardless of where in the value chain that it was created. So this means that our data will no longer be locked down in our more than 3,000 IT systems and databases. It will actually be accessible in one place, OMNIA. And that means that OMNIA is really a key enabler for the projects in our digital road map because all of them really depend on access to data to deliver on their business case and create value.

A good example of how we are doing just that, creating value, is within subsurface analytics that I mentioned briefly earlier. I said that the Johan Sverdrup field is piloting a data lake, integrating subsurface data from dozens of systems, both internal ones and supplier systems, as part of OMNIA. And with this solution, we can use advanced analytics to better our exploration decisions to ensure the best placement of our wells in the reservoir, which, again, results in improved recovery rates.

One delivery within the subsurface data lake in OMNIA that was recently rolled out is called the reservoir experience platform. And this, ladies and gentlemen, is an interactive digital well book that will make subsurface well data an experience data from a range of sources accessible through OMNIA. The user then gets a unified view of data from many different systems. So instead of sitting there and having to switch between perhaps 4 and 5 different systems to be able to do your job, you have everything available in one application. And what this does is really, in my book at least, and I'm a nerd, so forgive me for this, but it liberates our data from the source systems and the silos. It reduces the engineering time. It improves safety because by visualizing and quality-checking well data from different source databases, we improve the decision basis for really critical technical work.

And perhaps the best thing of all, we upload data into OMNIA every single day. And once the data is there, new projects, new solutions can easily reuse it instead of starting from scratch every time. So this really is unlocking the value of the data that Equinor has.

And the reservoir experience platform took us less than 5 months to put in place. And if we can do this in a matter of months now when we're at the beginning of a transformation journey, just imagine what will be possible in the future. Gives me goosebumps actually to think about it. But going forward, we need to expand our collaboration, both internally and externally, share more data and create arenas where we can build great ideas together with others, which leads me to the second enabler that I wanted to discuss with you, our ecosystem.

And if you know Equinor, you know that we have traditionally worked closely both with existing partners, suppliers, research institutions and universities. But we are now stepping that up and are also entering into new strategic partnerships and working with start-ups. It's something that is sort of a new experience for us, if I'm honest.

Just before the summer, Equinor IT entered into a partnership agreement with Microsoft to support us in our cloud journey. This is a 7-year agreement with a value in, well, several hundreds of millions of U.S. dollars, so it's really a significant move for us. We did it because we firmly believe that moving to a cloud-based IT architecture is a prerequisite for our transformation. And the partnership will enable us to both modernize our IT systems, improve the running of our business applications but also increase the innovation and the value creation from IT. And having access to both a global and a local infrastructure will make it a whole lot easier for us to share some of the vast amounts of industrial data that we have while, at the same time, meeting data residency, data security and compliance requirements.

As a consequence of the partnership that we've entered into, Microsoft is establishing 2 new data center regions in Norway. They will come into operation in 2019. And this has huge ripple effects way beyond Equinor, and it could actually pave the way for growth and transformation for many other businesses and organizations in Norway. So just one example of what strategic partnerships and ecosystems can actually contribute to.

I mentioned start-ups, and I should probably say 3 words about our Techstars collaboration because it is exciting. This is a 3-month intensive start-up accelerator where they've tried to sort of condense 2 years of work into a period of 3 months. It's focused on small companies and start-ups who work on solutions within O&G, new business models, disruptor solutions within digitalization or renewables.

Before the summer, we started the application process. We have applications from start-ups in more than 30 countries, selected 10 of them together with our partners, KONGSBERG and McKinsey. And they are now in week 7 of their 10-week stay in our offices here in Oslo. And it's really exciting to see how they are working with us to accelerate the development of their solutions within topics ranging from electric aircraft via drones to business models and feed automatization for solar. So a really broad pallet, so to speak, of interesting companies there.

When it comes to -- well, my nerds would probably kill me for saying this, but however digital and robotized and automated we become, it's important to remember that transformation and digitalization is about something more than tools and technology. And at Equinor, we really believe in the fact that digital transformation is about changing the way we work and our ability to do that enabled by technology but not the technology itself. And that means that our job as a company really is to provide our employees with the necessary competence and capabilities to adapt to new ways of working. And that is why we have launched a digital academy that we use to prepare our workforce for the shift that is under way.

Basically, we focus on 3 areas. First of all, we want to provide everyone in our organization with a basic understanding of digitalization and what it means for us as a company. And we do that through various internal and external learning activities as well as through digital markets, where we gather hundreds of people in a big room and have presentations and stands. We also cater to the more tech savvy, such as my IT people, and give them the opportunity to deep-dive into new topics or topics that they already have a general mastery of. We also have a specific focus on leaders. We're offering programs on leading in the digital age because we want our leaders to be able to drive the transformation internally and also have a voice externally on this topic. So in short, we focus on developing people to prepare them for an even more digital future with more data-intense job that will require different capabilities than what we require today.

But to sum up, because I'm getting the evil eye now from Peter over there, as I said technology is important because it creates the opportunity sets. But at the end of the day, it will be leadership, culture and capabilities that will determine if we succeed. And in Equinor, we have a long history of adapting to changing circumstances, of developing new capabilities and delivering. And I think that is a great

starting point. And I think a competent and flexible workforce like the one we have will continue to be a key differentiator as we move ahead.

So when the next chapter in our industry's history is written a few years from now, I believe that we will look back and we will see that the value that was created in the intersection point between our people in Equinor and new technology was really what enabled us in Equinor to truly shape the future of energy.

So thank you for the attention. And thank you, Peter, for your kind collaboration and guesses. Cheers.

Q&A

Lars Valdresbråten: Is this one turned off?

And let's begin.

So it's turned on, yes.

Okay, the future for fax machines looks uncertain to me, I have to say.

Åshild Hanne Larsen^ (inaudible).

Lars Valdresbråten ^ It's already gone now. So I was afraid of that.

Okay, we have a Q&A session here now. And I already see some hands here. I hope you have enjoyed the sessions, and I would like to have all the speakers on stage. Please direct your question, and let's take 1 or 2 in a row and rather come back if you have more questions so all get an opportunity to ask questions here.

We will also have some questions from externals, right, yes. Just a moment, we'll start here, and let's see who would be the first. I see John would like to be the first. I think you actually would be the first this time.

John A. Schj. Olaisen: Okay, it's John Olaisen from ABG Sundal Collier. A question to you, Morten. The first slide that you showed, showed the future lease payments of USD 7.6 billion. Just wondering, is that net or gross when it comes to situations where you're an operator?

Morten Haukaas: That is net.

John A. Schj. Olaisen: Has that... That is net.

Morten Haukaas: Net

John A. Schj. Olaisen: All right. How much would that change you did it gross?

Morten Haukaas: That is a thing we are assessing because, as I mentioned, we have certain assets that we're saying that, who is really the customer, is it a license or is it the operator? And for certain assets that we use across licenses like helicopter supply bases, we will change to gross. But for others, typically, as they rigs, we may end up in a net position. But I'm not in a position to give you a firm figure today.

John A. Schj. Olaisen: But are we talking like a doubling? Because, I guess, on average, 50% is taken on the NCS fields, roughly. So will this \$7.6 billion double?

Morten Haukaas: Not that significant.

Anders Torgrim Holte: Anders Holte from Kepler Cheuvreux. I actually have a follow-up on the lease. Now you said, if you were to add the lease costs, right, to net debt levels, that would pump it up by 9 percentage points. Now is that actually going to be the case? I mean, will we see a meaningful hike of that number? Or how should we interpret that?

Morten Haukaas: You can see some directions, yes, that, that number is nominal. The lease liability you're going to recognize is a net present value. There's also a requirement in the standard that you're only to recognize a lease liability when the lease commences and not when the contract is signed. So we have something that will draw the numbers down. Also, the short-term lease exceptions or there are some policy choices that are made. But that's what may drive it upwards is any gross impact where we as an operator has to recognize the lease liability gross.

Anders Torgrim Holte: And that translates into -- or a quick message is that the net debt level will rise?

Morten Haukaas: That we'll have to come back to with the final number.

Anne Gjoen^ I have a question related to natural gas. Since the outlook in a longer perspective is pretty good in terms of replacing coal, et cetera, will you be more dedicated when it comes to exploration for natural gas resources in Norway, for example?

Eirik Wærness: As part of the road map for the NCS, we have stated that we will be looking specifically for gas on the Norwegian continental shelf partly because of the installations being there and having the ability to transport more gas in 5 to 10 years and not having consciously export for gas, and we still have had a lot of gas and there's been -- there might be pockets of gas which will be very cheap and cost-effective to develop. So that's part of the revitalized exploration strategy, if you want, on the Norwegian continental shelf. That's one of the examples of the things that we might be doing.

Peter Hutton: This is Peter. I'm asking you a couple of questions that we've had from the U.K. analysts, the first 2 coming from Biraj Borkhataria of RBC, and it's a similar one from Anne who was asking at the start which is, "Gas markets look set to be -- well -- set up well into winter. What could derail an otherwise tight market?" That's the first one. And the second one for Åshild is, "Digitalization, everyone's talking about it. What does Equinor think you're going to do differently versus peers? Where's the competitive advantage?"

Elisabeth Aarrestad: The first one is that it's what...

Peter Hutton: Yes, what could possibly go wrong? It looks like it's going to be tight into winter. Where might we be wrong?

Elisabeth Aarrestad: What might be wrong? I mean, the temperature is something we -- the weather, we can't predict. It's always -- we have a much warmer winter than what we normally would have. That's one thing. I guess beyond that, I mean, of course, what could go wrong? With respect to prices dropping significantly, I really don't see any other major...

Eirik Wærness: I mean, in the short term, it's weather.

Elisabeth Aarrestad: Yes.

Eirik Wærness: It's -- demand will not change significantly for any other sources. So it's...

Åshild Hanne Larsen: Good. And when it comes to competitive advantage, I hope I made it clear that transformation this time around will be about technology and people in combination. So for me, it starts with building on the long, successful history we have as a company when it comes to developing technology, implementing it and being innovative. And I think we also have a workforce that's proven time and time again that they are able to adapt, they are able to build new capability set. We have that proven last when we expanded into renewables, mainly with the capabilities of our existing workforce.

So I think the combination of those 2 actually is what will be a competitive advantage and will help us put Equinor at the forefront of the transformation journey in the industry.

Christian Yggeseth: It's Christian Yggeseth from Danske Bank. Another question on digitalization of your operations. You're saying it's sort of 50% lower drilling cost, 30% down on CapEx and 50% down on OpEx. Can you give us a sort of a time frame from how and when you're going to get there?

Åshild Hanne Larsen: It's mainly up until 2025. But I suspect without knowing it that if we have any more news on that, those will be revealed at the Capital Markets. But for now, those are the ambitions that stand.

John A. Schj. Olaisen : Given the huge seasonality fluctuations on demand in Europe, a few years back there was a lot of focus on storage because it was produced more in the summer, stored and sell it in the winter price. Could you update us on status there at the moment? Because I remember you had some big storage projects in the old gas fields in -- or oilfields, I don't remember correctly, but in the U.K. Could you update us on the storage policy and operations data, please?

Elisabeth Aarrestad: I guess the storage situation is -- in Europe is that the capacity is lower than it used to be and with the closing of the Rough storage in the U.K. as well. So there are really no new projects related to storage capacity from our point of view. I guess what is happening is that the LNG plays more and more a role of taking that flexibility as you need -- or covering of the need for that flexibility instead of gas storage. So it's more flexible. And you can say seasonality, Asia versus Europe, also matches quite good so -- and that's LNG that covers that.

John A. Schj. Olaisen : Yes. No storage then? Storage mainly capacity, do you expect storage (inaudible)?

Elisabeth Aarrestad: I guess there was not -- you don't have -- there is no value in it because the volatility or the spreads are not that big. So you would invest in other tools to cover that.

Anders Torgrim Holte : Yes, I think I might try to ask an accounting question a little bit differently. I guess you won't give me an exact answer on how much the net debt is going to increase, but I think it's pretty obvious that you will end up with a higher net debt within your accounting standard. So the question is really, will that have an impact on how you would manage your balance sheet after that? Or should we expect you to pay down more debt than what you otherwise would have done if you haven't implemented this new accounting standard?

Morten Haukaas: I think then I'll also refer to what I stated that we will see impacts on the balance sheet. And the direction is clear, we will have more debt on the balance sheet. Lease debt -- and corresponding, we are to use assets. But this should not influence the underlying activity and business of Equinor. That remain unchanged. This is just a whole -- the same transactions are reflected in the accounts.

Lars Valdresbråten: Peter, you had a couple more?

Peter Hutton: Yes, yes. I'll let -- well, 3 more actually but one of which I'll answer quickly myself. So the first one -- and this came from Lydia Rainforth at Barclays. First one, "Will the accounting changes lead to a change in whether Equinor will choose to enter leases going forward in the same way?" The second also for -- again for Åshild is, "Does Equinor use 3D printing?" If it does, I certainly don't. And the last one is, "At what point do aspirations on cost reductions and CapEx become part of formal targets?" And I think I'll answer that one, is that, yes, it's still very early days. We've quantified this at last year's CMU. I think one of the things that Åshild has been doing today is to show the progress towards that. We're still a long way off, I think, on that one. So we're still quantifying those ones. And if we do, it would be at CMU, but I'm not sure we're going to be giving that much more this time around.

Morten Haukaas: I think then, changes how we enter lease contracts, I think that is one other maybe concerns about the standard because the standard was implemented to increase comparability between companies to have more of the lease debt. So the -- we get rid of distinction between buying and leasing. But then, of course, when you create different thresholds, is it below 12 months not in the balance sheets? Above 12 months on the balance sheets? It should have some incentives that could impact maybe the way contract is entered depending on whether you want to have that contract on the balance sheet or not. But our position is that this is an accounting standard, should not impact business decisions because that should be based on economics of the decision itself.

Åshild Hanne Larsen: With 3D printing, the short answer is yes, we use 3D printing. We have been experimenting with 3D printing for quite a while. And it's interesting also in the perspective of replacing old parts in plants, for instance, that are no longer accessible in the market. I know of colleagues in other companies who've been desperately searching eBay for replacement parts. And with 3D printing, you can avoid that. You can actually print the parts.

Eirik Wærness: So we do that on our land plants, for instance.

Åshild Hanne Larsen: On some of them.

Eirik Wærness: On some of the land plants.

Jørgen Bruaset at Nordea. I'm just following up on the last question on IFRS 16. Should that also imply that in terms of your target debt ratio, it will also just shift upwards according to the adjustments from the new accounting standard? Or how should we think about the target debt ratio?

Morten Haukaas: We will provide updated target measures for our debt ratio in the Capital Markets Update in February.

Pål Vinje, Norges Bank: I have a question for Eirik Wærness. In the spring, futures prices implied prices in 2021 around \$57, 2021. Today, you see futures prices for 2021 around \$67. Over that period, IMF has downgraded their global growth forecast. Why has futures prices increased during that period when IMF has downgraded their global growth forecast, implying probably lower global oil demand?

Eirik Wærness: The short answer is that the future prices are generally a very good indication of the spot price at the time you ask people what it should be. And the spot price has gone up as well. So there's a lot of factors that would affect how the market sees this. And one thing is that if you're worried about the demand, that it might not grow as much as possible, then that's one bearish factor that could take the price down in the future. But if you're more worried then about storage levels becoming normal, that the sanctions of Iran becomes a reality, or that you become more worried about supply disruptions in a country like Venezuela, for instance, during the same period, then you can get bullish factors that together continue to lift the futures prices. But, I mean, the general conclusion is that the future price is a very good indication of the spot price at the time you record it.

Lars Valdresbråten: Do we have more questions here in the room? Yes, we do.

Anne Gjøn, Handelsbanken. Shale has been a success in terms of significant volumes in the U.S. How do you look at shale in the Europe or in countries close to Europe in terms of prospects for accelerating growth?

Eirik Wærness: Well, you're right. Shale production, shale supply and shale growth in United States has been a phenomenal adventure, and we haven't seen the end of it yet. And we've just seen the start of things like increased production efficiency and increased ultimate recovery rates. We are not very bullish, I should say, on the ability of other countries to provide similar types of growth stories. Now there are very many specific factors driving that type of development. There -- you will see some shale coming out of Argentina, as an example. It could be more gas than oil, but we'll see. Other countries where the shale potential potentially could be big are countries that are also provided with a lot of conventional

resources. And then, of course, it becomes a cost question whether you develop your conventional resources first and then wait until the time is right for developing the shale resources that ultimately are either below those types of reservoirs or elsewhere. And with different developments going into different directions, we cannot exclude that there will be shale oil coming out of Russia many years into the future. But then that's a choice between different types of conventional plays and different types of shale plays. We don't see a lot of growth in shale gas within Europe, and we do not see a lot of it with potential exception of some gas -- shale gas in North Africa. We don't see a lot of it around Europe either.

Lars Valdresbråten: This is the opportunity to come with some nerdy questions. I could tell some of you to be part nerds, some...

Eirik Wærness: On IT and accounting.

Åshild Hanne Larsen: Yes.

Lars Valdresbråten: Yes, Oddvar.

Oddvar Bjørgan: Yes, I don't remember if you showed it actually in the presentation but just a question on natural gas and how much new LNG capacity you expect to come into the market in '19 and '20 because, I guess, you said you were a little bit worried.

Elisabeth Aarrestad: I was -- probably I wasn't specific on the capacity. But you're talking new projects and new volumes coming onstream in the next year. We have -- our estimates indicate between 35 and 40 Bcm in -- during 2018. I guess we're on the low side of that now so far on FIDs. And in 2019, about 50. So it's quite a lot. And then it's a little bit lower again in '20. So reaching, what I say, we're counting around 350 and then reaching around -- above 600 in 2025. So it's quite a rapid growth. But then again, bear in mind the size of the LNG market compared to the global gas market as such, that it seems a lot when you look at the LNG isolated. But bearing in mind that you're starting, it's 10% of the total global gas market today, and it will increase from the 10%. But yes, it's still limited in that context.

Lars Valdresbråten: No more questions? Then I think I will leave the mic to Peter.

Peter Hutton: Thanks, Lars. Very neatly done.

And I just want to do 3 things when we finish actually. First of all, I'd just like to thank all the speakers. So Åshild, Morten, Eirik, Elisabeth, thank you very much for that one.

We did a very seamless sort of transition between everybody. And so at the end of this, can I just ask everybody to give them a round of applause? Because one thing that I used to really appreciate when I was on the other side of the table as an analyst was the fact that this company does give access of people from throughout the company through to analysts and investors. And I think it's a very good tradition and one we want to continue. So if I could just ask people here in the room just as a little show of their appreciation for the speeches that they did.

Morten Haukaas: Thank you.

Eirik Wærness: Thank you.

Åshild Hanne Larsen: Thank you.

Elisabeth Aarrestad: Thank you.

Peter Hutton: Secondly, an awful lot of stuff to get to grips with in a fairly short amount of time.

So you'll be relieved to know that there will be a transcript available on the website. We'll get that through in the next day or so to go on the website. So you'll have a chance to look through in those in a

little bit more detail. And as ever, if there's any questions, you have any follow-up, please come to myself or the IR team, and this also gives me a chance to thank the team really strongly for organizing this today. There's always a lot on, on the -- around the conference, and this is the tradition that's been going on for many years, and I think it's always a very, very good one. So thanks, everybody, in the team for Equinor as well.

And then finally, last and certainly not least, thanks for yourselves for coming on. It's good to have such a good turnout. Good to have everybody on the website as well and some questions. And for those still listening, if you've got any follow-up also, please come through to me. Thanks again for your attendance, and the next event will be on the 6th of February, the Capital Markets Day. Look forward to seeing you there. Thanks a lot. Bye-bye.