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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome, and thank you for joining the Equinor Analyst Q2 call. (Operator Instructions) I would now like to turn the conference over to Mads Holm, Senior Vice President. Please go ahead.

Mads Romer Holm - Equinor ASA - Head of Finance

Thank you, operator. Ladies and gentlemen, welcome to the Equinor Results Call for the Second Quarter of 2022, and thank you for the participation. I'm Mads Holm, Head of Investor Relations. This call will be led by Ulrica Fearn, Chief Financial Officer. Ulrica will present the results, and then we'll open up for question as usual. We aim to complete the call within the hour. Also on the call today, we joined by Svein Skeie, who is now SVP, New Value Chain; and also May-Kirsti Enger, who's the SVP Group Accounting.

So with that, let me pass straight over to Ulrica for the presentation. Thank you.

Ulrica Fearn - Equinor ASA - Executive VP & CFO

Well, thank you very much, Mads, and good morning, everyone. Today, we present continued strong financial results against the dark backdrop of the war in Ukraine and an energy crisis in Europe. The war continues to influence an already tight energy market and energy prices started to climb already last year and European gas prices reached record levels.

This was driven by demand coming back after the pandemic, lower-than-expected production of renewable energy combined with a tight supply side in oil and gas. Energy markets are also closely linked to the global economy. With energy prices at a high level, we see inflationary pressures, Central banks are raising interest rates and this increased uncertainty for global economic development going forward.

On the other hand, when Asia and especially China comes out of COVID, this is expected to drive growth in energy demand. How these and other macroeconomic forces play out is uncharted territory. On the supply side, we do know that there is a limited free capacity of supply.

OPEC has increased their quotas. However, several countries do not have the capacity to deliver on these. It underscores the importance of more investment in energy production and the infrastructure to re-establish a balance between the cost of energy, security of supply whilst decarbonizing the energy sector.

And right now, our most important contribution is to secure stable operations and delivery of energy whilst continuing to invest in energy security and the energy transition. We also need to prepare for high levels of uncertainty in the markets and ensure robustness and resilience and maintain cost and capital discipline.

In the quarter, we continued to deliver strong financial results. Cash flow from operations after tax was \$10 billion. We have maintained high levels of gas production into the second quarter, a summer quarter in which we normally would have produced less compared to the winter months.

Having taken several steps to increase gas deliveries to Europe, we achieved 18% more gas from the NCS compared to the same quarter last year, only 4% down from the first quarter. The higher summer production has been an important contribution to help fill European storages.

After extensive repairs, improvements and maintenance, Hammerfest LNG was safely back in production on the first of June and has been successfully ramped up since, sending the first cargoes to Europe. Recently, -the Peregrino field was brought back on stream.

It has been a challenging process due to COVID restrictions in Brazil. We've had good industrial progress this quarter, and we are delivering on our strategy. We conducted several value-creating transactions, both on the Norwegian continental shelf and internationally.

On the NCS, we completed the acquisition of interest in Statfjord increasing our share in the field. And as a result, we even received a payment at closing due to price development since the effective date and the assets continue to deliver good cash flow. In the U.S., we took over all the equity in North Platte, then sold shares and transferred the operatorship to Shell. All in all, this leaves us with a higher interest in the project and a payment from Shell.

We also completed the transfer of our assets in Russia, as previously announced. Furthermore, we have progressed in developing new value chains for power supply. Together with SSE, we have acquired the U.K. power company, Triton Power. The Saltend power station is a key part of this, and we will start preparing for future use of hydrogen in the power production.

In the U.S., we have acquired East Point Energy, a battery storage developer. Energy storage is an important and necessary part for the transition to more renewable energy and other low carbon value chains. At the beginning of the quarter, we were awarded a CO2 storage license for Smeaheia, a project which -- with a CO2 storage capacity of 20 million tonnes per year.

Together with Belgium's Fluxys, we are studying opportunity for transporting captured CO2 by pipeline from the continent to safe storage on the Norwegian continental shelf. We continue to deliver very strong results, which enable us to invest in the business and build resilience in our balance sheet.

The Board has decided on a cash dividend of \$0.20 per share for the second quarter. And in addition to this, on the back of continued strong financial results, the extraordinary cash dividend is increased from \$0.20 to \$0.50 per share for the second and the third quarter.

Our share buyback program is conditional upon the Brent price, our net debt ratio and as well as the commodity prices. And on the back of continued supportive conditions, we increase the buyback program from \$5 billion to a maximum of up to \$6 billion for 2022. The third tranche will be around \$1.8 billion with a market share of around \$600 million. In total, we increased the capital distribution from \$10 billion to up to \$13 billion for 2022.

In total, this represents a balanced approach where we invest in our competitive portfolio in the energy transition while showing a commitment to offer attractive shareholder returns. On safety, the 12-month average serious incident frequency is 0.5. And the total recordable injury frequency for the past 12 months is 2.5 per million hours worked. We delivered solid operational performance for oil and gas and electricity. For NCS gas, we have delivered a substantially higher volume than normal in the second quarter.

In the quarter, our equity production of hydrocarbons totalled 1,984,000 barrels of equivalent per day. Adjusted for the divestment of Bakken and the assets in Russia, this is slightly more than 1% higher than in the second quarter of last year. Ramp-up of Martin Linge continued in the quarter and the investment was paid back after tax after 1 year in operation.

We expect Johan Sverdrup Phase II, Njord Future and Peregrino Phase II to start production later this year. And for the full year, we expect the impact of turnarounds to be 40,000 barrels per day. For the third quarter, we expect a quarterly impact of less than 70,000 barrels per day. We have increased power production by 15% from the same quarter last year to 325 gigawatt hours. The progress on our offshore wind project was good -- projects were good, but bottlenecks in global value chains affect the whole industry.

For example, we had to adjust the plan for Hywind Tampen due to delays associated with the delivery of steel. Four turbines are already installed on the field and another 3 will be towed out and come on stream this year. The last 4 turbines will not make it for this year's weather window and must, therefore, be installed on the field next spring.

However, even with just 7 turbines installed, Hywind Tampen will have 60-megawatt capacity and will be the world's largest floating offshore wind farm. This quarter, the average invoice liquids price was around \$107 up around \$10 from last quarter. The blended price of liquids and gas for Equinor was \$117 per barrel of oil equivalent in the quarter.

European gas prices have eased off slightly but are still high -- but have still high levels and have started to increase again as we entered the third quarter. In Europe, we have seen an unprecedented divide between NBP and TTF. Continental Europe is more exposed to Russian gas supply, hence, the TTF has reacted more to recent uncertainty.

Our adjusted earnings total [\$17.6 billion] (corrected by company after the call) and \$5 billion after tax. Net operating income ended at \$17.7 billion and net income after tax was \$6.8 billion. The global increase in prices and inflationary pressures also impact us. We see this combined with higher prices of electricity and CO2 starting to impact our costs.

We continue our improvement efforts to keep costs under control and to mitigate cost pressures. The tax rate on adjusted earnings in the quarter was 71.6%. This is thanks to a large part of our earnings being generated on the Norwegian continental shelf. Here, a high tax rate is a clear sign of having delivered strong results.

And now on to the segments. Our Norwegian upstream business has delivered its best second quarter ever with about \$14 billion in adjusted earnings and about \$3 billion after tax. Stable and good operational performance in addition to high gas production has enabled us to capture high values on the Norwegian continental shelf.

In this segment, we see that both electricity prices and higher CO2 prices in addition to new fields and turnarounds put an upward pressure on costs. This is partially offset by a stronger U.S. dollar exchange rate. The performance of our international business is very good this quarter, delivering high earnings and good cost control.

Overall, these are the best results ever delivered across our combined international business. Our international upstream business outside the U.S. had adjusted earnings of more than \$1.1 billion before tax and \$700 million after tax. The U.S. upstream business delivered record-high results, and that's despite slightly lower production due, in part, to lower production from Marcellus and the divestment of Bakken last year.

Adjusted earnings were at almost \$900 million, whereas the simplified cash flow was more than \$1.1 billion. The Midstream & Marketing segment contributed strongly to the group with adjusted earnings of over \$1.3 billion. In particular, optimized sales trading and trading of European gas and power strengthened these results.

The price spreads within the European gas markets have been record high during the quarter. And Equinor's captured value from the optimization of physical flows towards markets with higher demand and prices. There is a net positive impact from the timing effects from derivatives as mark-to-market has increased the value of the derivatives related to future European gas sales compared to last quarter.

The tax rate for this segment is higher than usual due to the earnings composition with a dominant share of the profit coming from NCS. Our Renewables business has, as expected, negative adjusted earnings of \$42 million due to high level of activity progressing our portfolio. Adjusted earnings from our assets in operation was \$32 million this quarter.

So far this year, we've had cash flow from operations of \$38 billion. We have paid \$12 billion in taxes and ended up with a cash flow from operations of \$26 billion after tax. After proceeds and capital distribution, the net free cash flow is almost \$20 billion so far this year, strengthening the balance sheet materially.

For the second quarter specifically, we had a cash flow of \$18 billion and taxes paid of \$8 billion. Our cash flow from operations after tax totals \$10 billion. We had two tax installments on the Norwegian Continental Shelf in the quarter, totaling NOK 73 billion or \$7.8 billion. The two last installments based on 2021 results.

From the third quarter, tax installments will be based on 2022 results as well as the new tax regime for NCS adopted by the parliament before the summer. And just to remind you that the new tax regime is a cash tax removing the uplift on petroleum taxes. However, as earnings are strong, the effect of the loss of uplift would be low.

In the third quarter, we will pay the first of the three tax installments for the Norwegian continental shelf to be paid in 2022. The August payment is NOK 70 billion, around \$7.4 billion. The capital distribution in the quarter was \$1.6 billion. The buyback of shares from the Norwegian state is conducted on an annual basis.

And last week, we paid for the state share buybacks made in 2021 and the first quarter, a total of more than NOK 13.5 billion or \$1.4 billion. This will be part of the cash flow in the third quarter. After tax payments, investments and capital distribution, net free cash flow for second quarter was \$7 billion.

And this further strengthens our balance sheet to an adjusted net debt capital employed of negative 38.6%. With the market movements and uncertainty in the energy market as well as our upcoming tax -- cash tax and capital distribution payments, resilience in the balance sheet is important. Our strategic direction remains firm. We keep investing and progressing on our strategy and make no changes to our guiding.

So far this year, we have organic investments of \$3.8 billion. We expect to invest around \$10 billion on average this year and next. However, this will be back-end loaded. So I will round off here and then hand it back to you, Mads, and then look forward to your questions.

Mads Romer Holm - Equinor ASA - Head of Finance

Thank you, Ulrica. Let us pass back over to the operator to open up for questions. And please keep in mind that no more than two questions should be asked. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is from the line of Giacomo Romeo from Jefferies.

Giacomo Romeo - Jefferies LLC, Research Division - Equity Analyst

First question I have, it's obviously great to see you stepping up the shareholder remuneration. I just wanted to see how you're thinking about putting this more on a financial frame sort of consistent with some of your peers in terms of looking at it as a payout of CFFO or surplus cash. Is there a way you can help us sort of understand how you're thinking about distribution -- distributing the very high cash flow you're generating?

And the second question is just wanting to see -- get some of your thoughts about the EU proposal to cut demand by 15%. And sort of if you can talk about sort of the evidence you're seeing at the moment in terms of demand destruction in Continental Europe, if you have any sort of empirical evidence you can bring into our attention that would be great.

Ulrica Fearn - Equinor ASA - Executive VP & CFO

Thank you very much, Giacomo. Let's start with your first question around whether we can put a more financial frame around our distributions. We have been very clear from last year as to how we reason around our capital distribution.

First of all, we always say that the best place for the money is back in the business on good returns in investments. And we clearly have to have a strong balance sheet, and we are aiming for a 15% to 30% net debt ratio still and, clearly, we're outside of that at the moment.

But we've also introduced a flexible part of our capital distribution framework, which we've said we will enact to about the level of \$1.2 billion around a [oil] (corrected by company after the call) price of 50 to 60 and a supportive macroeconomic environment and commodity prices.

So that's what sits to the basis of what we're doing, and we're continuing to execute against that. And what you will have seen us doing since the third quarter last year is utilizing that flexibility. So when we continue to have supportive conditions beyond that, we have pushed our share buyback program beyond what the \$1.2 billion.

And also, we are interested in a balanced approach across cash dividends and share buybacks. So we've also tried to keep that fairly balanced between share buybacks and extraordinary dividends and that's what you see us continuing to do.

So if you go back over the quarters using this base framework, I think you will see the sort of additional support and the additional cash being distributed in a fairly straightforward way. And I think then on the question around the 15% demand destruction, the -- we didn't see much in the market.

There was clearly a Nord Stream I gas announcements yesterday overshadowed the news around the 15% reduction. There were also some exceptions to the 15% reduction. Look, the gas market in Europe is going to need all of the above to be able to get to a level where it's sustainable going forward.

The market will continue to be tight. There are other factors clearly then how much LNG import they can get how much of this 15% will actually realize. And then also, of course, the weather and the current storage levels and how they can continue to drive that up.

This is a complicated picture, and you can't really see directly one factor from the other, the sort of Russian gas supply overshadows quite a lot of the others. So that's what we keep on looking at. What we say with the gas market is it's clearly going to continue to be tight.

And it's clearly going to continue to be volatile going forward, and that's what we prepare for. But -- and of course, our part in that is to continue our supplies. As you heard, we've increased 18% of our gas supplies from NCS in the quarter. And with the Hammerfest being back on stream, we are continuing to support that as much as we possibly can. So hard to say and see the individual factors in themselves, but it's going to continue to be tight.

Operator

Next question is from the line of Oswald Clint from Bernstein.

Oswald C. Clint - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Curious -- just on gas again, curious on the 15-year contract with Cheniere from the U.S., do we -- could we expect more of these? Is that a Henry Hub-linked offtake agreement for you? Do you intend to bring that to Europe? And ultimately, are you receiving stronger commitments now from European governments or customers to underpin things like 15-year, 20-year contracts? That's really the first question.

Secondly, please, just on cost inflation. I think you spoke about Hywind Tampen, you spoke about OpEx pressures. But you also have a pretty robust CapEx guidance, as you said, next year and even looking out to 2025 despite having a, as you say, a full program of 23 projects on-the-go, is this the better supplier arrangements that you've been working on this last couple of years is really mitigating some of that? Or could there be some cost pressure on the CapEx side of the equation as we look out to 2025?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Thank you Oswald for your questions. And yes, I mean, to your first question, if I talk about more longer-term demands out there, there are lots of conversations around gas demand and how industries, how companies, how countries will secure gas supplies.

And we need to find the right balance that fits the strategies that we've got and make sure that we maximize the supply and the price indications that we do get knowing that clearly, European gas is the priority. The gas contract we did in the U.S. is linked as you said. And when there is a good contract coming up that makes sense and fits into our portfolio and our production profile, in the best way we will pick that up as we go along.

But there is, of course, pressure to sort of how can we secure our gas supply is a very frequent question to us. On the comments you've made around how Hywind Tampen and CapEx and how we're mitigating the costs pressures, I guess, it's underneath all of that. Hywind Tampen was actually not so much a cost pressure delay.

It was more of a supply constraint around steel. And to answer your question, I think that's the biggest -- the inflation is a worry for us, and we could do continue, as you say, mitigate that with the strong procurement capabilities we've got, we're doing more with less suppliers.

We're looking in contract as early as we possibly can. We are utilizing relationship across different categories. And all of that certainly helps in the short term when we had already started this. So it sort of carries us over in certain instances where we've been setting up long-term contract already before this push on inflation is coming.

I think the one that is kind of also a worry that is linked to inflation is the supply chain disruptions. But again, some of the same solutions working closely with the suppliers being very much prioritizing the two sides of the supply chain is what we also need to do from that. And there's more of that to come.

But in terms of our CapEx guidance, we have -- what we see is in our sanctioned portfolio, we have got a lot of our contracts sort of locked in already. And in our non-sanctioned portfolio is more exposed. And I guess most of our CapEx guidance as we have at the moment is linked to the sanctioned portfolio, and therefore, you see a little bit less of movements in that. But we do see the pressures underneath. So I hope that gives a little bit of colour also.

Operator

Next question is from the line of Biraj Borkhataria from RBC.

Biraj Borkhataria - *RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst*

The first question is on LNG. So you recently signed a long-term energy contract from the U.S. That's an area where you've been sort of underweight relative to peers. I would say, hasn't been a huge focus in your kind of CMDs in the past.

Can you talk about how your views have changed, I guess, given conflict? And what you're thinking about over the next sort of 5 to 10 years now, you can address that underweight if that's what you're looking to do?

And then the second question is on your CapEx budget, just following on from the last question. You, obviously, maintained the guidance over the medium term. But we're hearing about some very significant cost inflation numbers coming through across oil and gas, but also low carbon maybe if you could put some numbers to what you're seeing currently on the inflation side and where you're most concerned that would be helpful.

You mentioned that you're using long-term contracts as part of the mitigation strategy. But how long is the long-term contract typically? So some details around that would be helpful.

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Thank you, Biraj. I think the U.S. contracts start with that. I think it's -- we keep on understanding where are the best opportunities and where is the biggest demand? And what are the strongest price signals? And then that's part of that portfolio. And it's what we keep doing is what we've been doing and that's what we keep on doing now as well. Our primary focus has been, however, on Europe and will continue to be in the future.

Having said that, the U.S. is an important market to us. And when we see that opportunities there as well. We will continue to look for those opportunities as well in addition.

On a little bit more detail on the cost side. I mean, what we're seeing, and there's two sides to it. There's the operating costs, of course, and then there's the CapEx. And what we do see, and we mentioned it a little bit here in -- earlier on in the presentation is what we do see is operating and maintenance activities increasing.

We do see, of course, higher environmental costs and electricity prices. We are also not immune to that on the other side. And those will impact our operating costs. And then you've got the CapEx side, which the issues have been more around. And as I said, there's been the rigs, tightening the market around the rigs, sort of, pretty harsh environment and where demand, I think, is expected to increase towards 2023 and then peak after that.

And -- but then it should balance going forward. It's in engineering and construction where utilization rates are high and labour costs are increasing. And we do see a potential of constraint here going forward, but it's a global issue clearly and not specifically to the northern hemisphere here.

And then we've seen steel and raw materials, which have stabilized, and we are seeing them and they are expecting to decline. But -- so even though there isn't a big impact yet, we are seeing these developments. And it makes, inflation and volatility makes tendering difficult.

And as I said before, exposing the non-sanctioned projects for uncertainties. We are locking in, in terms of time, time horizon is very, very different. But per category, we were locking in pretty much where we can, the duration of the project. So that's why the sanction portfolio is pretty stable at the moment for the environment we're in.

But if you go beyond '26, '27 it's going to get more and more fluctuating as you go into the future because you've got a bigger portion of a non-sanctioned portfolio coming into the total. I think that gives you a little bit of a flavour of what's driving it and how we're doing, but that difference between how it hits us and also the difference between the sanctioned and the non-sanctioned portfolio.

Biraj Borkhataria - *RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst*

That is helpful. Are you able to say whether it's the U.S. on the low carbon side or in oil and gas? Or are you seeing kind of general inflation across the spectrum?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Sorry you cut out a little bit in the beginning. I didn't get the beginning.

Biraj Borkhataria - *RBC Capital Markets, Research Division - Director, Co-Head of European Energy Research Team & Lead Analyst*

Sorry, are you able to say whether the inflation you're seeing is worse across -- within low-carbon projects or the oil and gas?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

No, I think -- I mean it's more -- what we're seeing is general by category and it's not directly related to the projects as such. So as I said, of course, steel will have -- it's category by category rather than a project by project.

And so it's fairly universal. And also the constraints in the supply chain sort of also fairly widespread with the same actions as I've talked about before, to mitigate that.

Operator

Next question is from the line of Teodor Nilsen from SB1 Markets.

Teodor Sveen-Nilsen - *Sparebank 1 Markets AS, Research Division - Research Analyst*

Two questions from me. First, just on your 15% to 30% net debt to capital employed ratio. Are you considering moving away from that ratio in -- it looks like it's less meaningful with a very small denominator when you have negative net debt.

Second question is on just gas exposure. It looks like now you're selling most of the gas in TTF prices versus NBP. I just wonder, could you give us some guidance for second half this year, how much of your gas sales in Europe that you expect to be linked to the TTF price versus NBP and other pricing?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Thank you very much, Teodor. And yes, it looks -- if you look at the 15% to 30% capital employed, the negative numbers do look very different from what they did only a year ago. We have assessed our 15% to 30% capital employed ratio as a long-term range, and we will stick with that.

And I think as much as it looks negative at the moment. We have got some very big payments coming along in the next quarter. I referred to some. We have got a big tax payable and we have got a business that is facing significant swings. And so the metric itself, we are still sticking to the metric itself. We do -- that's what we are aiming for in the very long term.

And meanwhile, it's a bit way below, as you say, and it does look a little bit odd, but it wasn't that long ago, we were above. So the metric itself, I think, serves us okay for where we are today and for the future. So no, we're not really looking at changing the 15% to 30%, neither the metric or the range.

In terms of gas exposure, yes, the TTF versus NBP market is clearly been, as you've seen, been decoupling lately, driven by, of course, who's most exposed to Russian gas supplies and storage levels, et cetera. And these trading geographical spreads are out there and have been out there, and we will continue to trade around those and drive behind the pricing signals that, that give.

And it's the flexibility of our transport and now that sort of limit us as to how much we will do that, but we will not share how much that will be because one, we don't know at this point in time, we will look at the most optimal way of delivering and do that within the constraints that we've got.

So I can't give you an indication from that. What I can say is that we do see continued geographical spreads to stay high and volatile as well at the same time.

Teodor Sveen-Nilsen - Sparebank 1 Markets AS, Research Division - Research Analyst

Okay. So (inaudible)sold on TTF prices?

Ulrica Fearn - Equinor ASA - Executive VP & CFO

I think if you asked about the proportion of TTF, you cut out a little bit. I can't share that with you because again, it will be dependent on market conditions as we get there.

Operator

Next question is from the line of Peter Low from Redburn.

Peter James Low - Redburn (Europe) Limited, Research Division - Research Analyst

So you did a great job maximizing your Norwegian gas production. How long do you think you can maintain gas output at current high levels? And are there any risks to infrastructure or reservoirs from operating at such high utilization for a sustained period of time?

And that will be my first question. The second was just related to MMP and derivative impacts. Obviously, been kind of swinging around quite a bit in recent quarters. Could you help us at all with kind of what you're expecting to see in the second half of the year there? Should we expect that some of the gains we've seen booked unwind?

Ulrica Fearn - Equinor ASA - Executive VP & CFO

Very good. Thank you, Peter. And on the sustained gas delivery, we will continue to try to sustain as much of a gas production as we can for our role as making sure that we've got a stable secure supply of gas certainly remains and will do.

As you say, we've seen record gas production for the second quarter on the NCS. And that is partly because we've postponed some turnaround planned for the second quarter for gas fields. But also, we are continuing exporting gas from Gina Krog and that would otherwise be used for injection.

And there are other measures being taken that we've revised production permits and -- and of course, both for Troll and Oseberg. And as I said before, we've resumed production in LNG. And some of these are temporary, but some of these we could continue to push forward. And the gas injection, if that's what you refer to, whether it's sustainable.

At this point in time at these prices, we believe it could be sustainable for longer, but each asset, each decision needs to be business case-based. And we do have our geologists and assessing carefully if it's got any impact on the long-term viability of the overall asset.

And -- but these prices, there's some headroom in terms of continuing to do so. So we will try to continue to keep the gas where it is, continue to search for gas, continue to keep the efficiency up on our gas assets and continue to see whether there's anything we can do to push, as I said, any permits, et cetera, for continuation should that be necessary.

The derivatives and in the future of those. I mean, we've taken some big gains. I mean, I would say, I've said this before, there are two -- there sort of two parts to the MMP trading position here around gas, in particular, which is -- one is the underlying contracts where we've got term fixed contracts in the future where we've basically swapped back to floating in the value of that.

And then the value of the derivative itself gets mark-to-market on a quarterly basis, whereas the underlying only gets if you like, mark-to-market or the value of that versus the current market only gets recognized at delivery. So there's that mismatch there.

And having taken -- and therefore, the positions of those will move with where the market is moving and will depend on the rate on the -- pretty much the last day of the quarter. So very hard to predict, what we've tried. And then the second part is more strategic positions, which are a small part of our portfolio, which, again, depends on the position, of course, and we can't predict.

But on this more underlying to get back to our more floating position that we have said we'll try to give an indication as we invite for consensus on a quarterly basis given that it's so dependent on where the market is at that point in time. So hopefully, that will help us to understand the results and volatility when it comes to that when we go through each quarter.

Operator

Next question is from the line of Amy Wong from Credit Suisse.

Amy Wong - *Crédit Suisse AG, Research Division - Research Analyst*

A quick question from me. Peregrino, good to see that project restarting and Phase II also scheduled for later this year. Could you give us kind of how you think about the -- a project like this in terms of economic performance and it's quite a heavy oil field as well. So how about its CO2 performance and how that fits into the overall Equinor strategy?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Great question. Yes. It's great news that Peregrino is back on and resumed production on the 16th of July, and it will gradually build up to reach capacity plateau through 2023. And also, we got Peregrino II coming on stream this year. So you're right, it will have an impact on our CO2, and we've got that in our -- we have an energy transition plan, which includes this.

And we are very clear on that we have got a very clear production profile that we need to deliver, and Peregrino is part of that. And it's also part of the energy -- the emission ambitions that we've got to reduce 50% by 2030 of our emissions of our oil and gas portfolio. So the way we think about it is it needs to fit into that.

It needs to fit in our overall ambition in our energy transition plan, and that's how we will then balance security of supply as well as investing in renewables as well as delivering on the emissions plans that we've got outlaying, reminding ourselves that actually on a emissions intensity point of view, we are probably about half of many of our peers already.

So in -- this fits within the boundaries of what we've already committed to and is part of that if that makes sense. So we need to balance all of this to make sure that the supplier -- energy supply is there, whilst we transition, but we're very, very clear how it fits in and it's stretching, but confident that we can get there and that 50% reduction by 2030.

Operator

Next question is from the line of Henri Patricot from UBS.

Henri Jerome Dieudonne Marie Patricot - *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*

A follow-up question on the -- question of distribution and the net debt. Just want to get a better sense of how we should think about the potential additional shareholder returns. So I'm conscious there's no particular formula.

But for instance, is there any particular level of net cash that you think would be too high. And so we should be thinking about any additional cash flow that will bring you above that net cash level as potentially additional return to shareholders. Any indications you can share around that?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Yes, very, very good question. And I think I'll come back to what I said before. I mean, we are clearly way outside of the 15% to 30% range at the moment. I think what you've seen today -- and what you will have seen in Q3 and Q4 of last year is that we are committing to use the flexibility in the shareholder distribution programs that we got to take steps towards that ratio.

When we do that, I mean, there are some criteria here to sort of plug into the spreadsheet, which is we'll get back to the 15% to 30%, that's what we said in the long term, but we have to take several factors into consideration the volatility and the resilience that we need in the short term, the pull on the cash in the also short term and medium term, given the delay in our cash payments, and you can just look at our tax payable on the balance sheet, which needs to be paid for.

We also have committing to big CapEx going forward \$10 billion now for the next 2 years and then up to \$12 billion. And we've committed to big renewables investments. They need to be financed. And you sort of -- if you overlay that in and then plot a track towards 15% to 30%. This is a long-term range. We don't need to get into that in each quarter. It's a long-term range where you need to balance all of those factors in.

So it will give you some guidelines and some principles. And if you look at what we've done in Q3, Q4, and now you can see that that's the -- any additional sort of cash is considered to be -- we need to look into investment of the company. We need to look into those criteria and then see if there's anything else above that. We are committed to competitive shareholder distributions, and we'll use the flexibility to give that back over the period of time, if that makes sense.

So that's the formula rather than a sort of percentage of extra free cash flow. I'll also say is that we're very conscious of what we -- the payables as we've got but also looking at history and seeing what we have earned so far rather than looking into the future and bank on the current energy prices staying where they are for the next 5 years.

So I think it's also important thing to draw a line where we are at the moment and understand what we've already generated versus assuming many sort of forecast for the future. Hopefully, that helps a little bit of the context at least.

Operator

Next question is from the line of Mehdi Ennebati from Bank of America.

Mehdi Ennebati - *BofA Securities, Research Division - Director & Research Analyst*

Two questions. First one, a follow-up on your Norwegian gas production. Maybe some specification regarding the second half of this year and also the third quarter. So you've announced hydrocarbon production maintenance impact roughly in line in the third quarter versus the second quarter, 65 kboe/d impact.

And you've also highlighted that Snøhvit production is back to normal. So it seems that normally, with maintenance, let's say, roughly in line and with much higher production from Snøhvit. It seems that you might be able to approach 800 kboe/d natural gas production from the third quarter.

So am I missing something here? Such as maintenance impacting especially the gas fields or anything else, which could prevent you to significantly increase your gas production from the third quarter compared to the second one. At a time when the gas price is now back to record high. So if you can help us there, that would be very good.

And the second question is about the tax installment announcement that you've made for 2022 earnings. So one installment is \$7.4 billion. This is very, very low, much lower than I think what the Street was expecting. And I wanted to understand if such low tax installment is due to the fact that most of your 2022 CapEx are related to the 2020, 2021 special tax regime? Or is it -- thanks to the new oil and gas tax regime, which has been voted in June and which is now -- which now entered into process since July.

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Thank you very much. Let me go -- start on the production. And our guidance is 2% growth in 2022 and -- sorry, it's 2% growth in production, and that sort of includes what we have already shared some of you earlier on, what production is coming online for the rest of this year.

Yes, Snøhvit is up and running. Peregrino I restart, as I said, started off now. We got Peregrino II coming in, Johna Sverdrup Phase II and Njord Future coming in. So that will impact the rest of the year. And the turnarounds, we have indicated, as you mentioned.

I guess one thing I could add on top of that is that the turnarounds will be, as you heard, we've delayed some turnarounds from this quarter into next. And one of those is Oseberg. So that is clearly got an impact on the gas forecast that you got. But if you take those moving parts. I think you'll get to the -- a reasonable place.

On the tax, I don't think it looks low. It's that one installment is as big as two of the previous ones. So it's just the number of installments that you need to look at there, so the 7.4 is one instead of two, basically, so it's doubled. So it's quite low -- well, double of the total anyway.

So it's got nothing to do directly where it's got a little bit to do with -- this one is kind of 6 months in arrears. So we've got -- this is paying tax from 6 months ago. But what we're coming into now on the NCS tax scheme on -- it's not got big significant shifts to our tax payables. We're losing an uplift.

It's a tax -- cash tax now, which is beneficial for us in terms of upfront deductions. But what we are losing is the uplift on projects that we could deduct against the petroleum tax. And but overall, that makes a fairly small impact, especially when we make so much higher revenues on the NCS, that number is very small in comparison with the big tax numbers what we're paying. So it's all in. It's one tax installments rather than 2.

Operator

Next question is from the line of John Olaisen from ABG.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-Head of Research*

I have a couple of tax related questions. First, I noticed that over the last couple of quarters, there has been some minus tax charges for the U.S. segment. Just wondering, is this an indication that you're about to move into tax paying position in the U.S. If you could update us on this, please?

And the second question is to the relatively high tax rate of 80% for MMP in the quarter. I think you seem to remember that they guided the long-term tax rate for this segment is 40% to 60%. I just wonder if there is any -- if you could give an update on this, please. So U.S. and MMP tax rate please.

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Thank you. Very clear. No, in the U.S., we are not paying any federal taxes. This is the state taxes that we pay. And so there's no indications to start paying the federal taxes in the U.S. So that's a very straightforward answer. On the MMP tax rate, yes, it's been very, very fluctuating.

And I think, of course, it's a complex entity in terms of many revenue streams, but -- and we do -- it's a very hard one to keep -- to sort of guide towards there for. The reason is so high this time is because we've got a lot of earnings on the Norwegian continental shelf, and there are other offsetting back and forth within the P&L in other tax regimes that makes the net weighted average a bit confusing.

So I think we're going to have to try to help in terms of indicating how that is when it's outside of the range because that range is, as you say, very volatile going forward.

John A. Schj. Olaisen - *ABG Sundal Collier Holding ASA, Research Division - Co-Head of Research*

And a follow-up to the first part of the question. In the U.S., when would you expect to start, having to start paying federal tax? Because I presume with higher oil and gas prices, that time is getting closer than it used to...

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

We are seeing -- we clearly have got a lot of great performance in the U.S., and it's good to see, but we've also got a long history of the other way around. So we have got -- I won't give you an indication on how far, but it will be quite a while before we get there.

Operator

Next question is from the line of Kim Fustier from HSBC.

Kim Anne-Laure Fustier - *HSBC, Research Division - Analyst of Oil and Gas*

Two questions from me, please. Firstly, could you talk a little bit about the progress you've made on CCS and hydrogen in the second quarter and how that fits with the broader U.K. and EU plants? And just on hydrogen, or specifically, I know you've been pursuing both green and blue hydrogen, but there seems to be a very clear preference in the EU for green hydrogen, and that preference seems to have been reinforced by the current European gas situation whereby gas is expensive and scarce. I just wondered if that is making you lean more towards green hydrogen or has nothing really changed?

Ulrica Fearn - Equinor ASA - Executive VP & CFO

Very good and interesting questions. And what I'm going to do since we've got Svein here in the room, I'll hand over to him to answer both, and I'll add after that. So Svein over to you.

Svein Skeie - Equinor ASA - SVP of Performance Management & Risk

Thanks for the question. Yes, we are progressing also well within the low carbon solution part of the business during this quarter. As we also talked about in connection with the first quarter results. In the second quarter, we were awarded the Smeaheia licenses on Norway and also 1 further up in the north, but Smeaheia has a capacity of 20 million tonnes per year for storage of CO₂.

And you also saw another announcement coming down towards the later of the quarter. It's a project together with the Fluxys in Belgium where we are looking then into building a pipeline and from the Continental Europe up to the Norwegian continental shelf then for storage of CCS there.

On the Northern Light, we are progressing well on that front. I also started the FEED for Phase II there, which could then bring the total capacity up to 5% to 6%, but we are now installing the first phase there of the 1.5 million tonnes.

Also, we did the acquisition of the Triton in the quarter, which is the CCGT in the U.K. What we're also starting now to work there, together with our partner SSE, that we will also look into how to prepare that one for using hydrogen into the blend and then providing the power to the market.

Then a comment on the green versus blue, I think into the future, yes, there will be green. But we also see that there are the more positive response then to also and utilizing the blue underway and then having the ability then to produce blue hydrogen as part of the energy transition that needed then for the EU. So good progress in total.

Ulrica Fearn - Equinor ASA - Executive VP & CFO

Actually, quite a lot of progress and quite exciting. And you're absolutely right, Kim, in terms of the geography spread between preference for green versus blue, is correct as well. But as Svein says, as we see a mix being needed in the short term, given the capability, I guess, of the two is different short term and long term. It's a very good question, if I finish off with that.

Operator

Next question is from the line of Anders Rosenlund from SEB.

Anders Kirkhorn Rosenlund - SEB, Research Division - Analyst

When you answered Teodor's question on leverage earlier and the targeted leverage range of 15% to 30%. You said that you were aiming and I'm quoting you for that "in the very long term". What does that mean very long term? Is that 5 years down the road or 10 years down the road? Or should we disregard it altogether?

Ulrica Fearn - Equinor ASA - Executive VP & CFO

Yes, it's a good -- it's actually a good question. I think what I meant with that is that we won't -- we've seen -- if you go back in history, we've been -- it's not months. It's -- we've been outside of the range, the other side for, I think, maybe a couple of years, but that's the sort of ranges rather than we should disregard if I put it away.

So -- but it's not months neither. And this -- the one thing I will say is time around this. It's hard to put the time around it because I will say what's very, very important right now is that we are in a very volatile environment. And what we do need to think about is there is a macroeconomic overhang on all of this and what that does to demand and what that does to prices, et cetera, going forward is anyone's guess, and it's a very complex picture that we're looking at in uncharted territory, as I said before, a little bit. So we are focusing back in time in terms of what has been generated rather what can be.

But no, you can't disregard it. That's not right, but it's even -- it's not a monthly, month-by-month movement that we're looking for neither.

Anders Kirkhorn Rosenlund - *SEB, Research Division - Analyst*

But if I may follow up, is this a way of saying that if prices drop at a level which doesn't justify paying out as much as you're currently doing, you will continue to do so because you have leeway in the longer-term financial targets?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

You can look at the support we -- over time, we will try to get back to the 15% to 30% given market conditions, and that's what we will be -- what will we be looking at. We were looking at the strength of the balance sheet. We'll be looking at what's needed in the near term, and then we will over time try to get back to 15% to 30%. That's what the aim is.

Operator

Next question is from the line of Martijn Rats from Morgan Stanley.

Martijn Rats - *Morgan Stanley, Research Division - MD and Head of Oil Research*

Okay. Well, I have two. I can hope we can squeeze it in the last 3 minutes. So I wanted to ask if you could make a little bit of a bridge between the comments in the last quarterly call versus well, what's consequently transpired?

Because on the last call, we also collectively talked a lot about the very sharp drop in net debt into negative territory. But back then, there were a number of comments at this quarter, actually, the net debt ratio should go up. And I quote from the last call, it will go up significantly and into positive territory.

Now if this has been a quarter where like oil prices roofed it or gas prices have roofed it, I could sort of imagine you could say, well, we just generated more cash, but broadly, the oil and gas prices, we have this quarter we also had last quarter.

So from the expectation in the 1Q call that the net debt ratio would go up versus the very significant decline in the net debt ratio that we've actually seen where, relative to your prior expectations, has there been a change? I'd be very sort of interested in that. And secondly...

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

That is straight -- yes. Okay, continue. Sorry.

Martijn Rats - *Morgan Stanley, Research Division - MD and Head of Oil Research*

Yes. Okay. And secondly, I wanted to ask about clearly, gas prices are very, very high. We need as much natural gas in Europe as we can, but there is no supply response from Equinor, right? The CapEx guidance has not come up. I haven't heard you talk about new gas production projects.

There is no -- the price signal isn't quite working perhaps as it has in previous cycles, right? I mean we've seen this for a while, but it gets to sort of quite unusual territory that even these gas prices is not making companies like Equinor drill more gas wells. I just want to make sure I've got that correct.

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Thank you very much, Martijn. And let's put the first context into -- comment into context. That comment was made that I think going back as to if we had paid the tax that was due right there at that point in time, which is clearly not what we are doing.

So that was a theoretical position that if we hadn't had a 6-month delay on our tax payments on the Norwegian Continental Shelf, and we would have stopped here and paid them off, the net debt would have been in positive territory. So that's what that was referring to, not a forecast for the next quarter, which we wouldn't have done.

On your price signals comment, there are many -- this is a complex picture for an integrated energy company. Yes, there is a strong price signal in terms of gas. But there is also strong signals in terms of continuing the energy transition and transforming into renewables and sticking to your emission plans and making sure that you're driving forward as hard as you can on that.

So and then on top of that, of course, what we're also very committed to is the right level of return across that whole portfolio as we're going through the energy transition. If you put all of that together, it needs to sort of take all of those boxes to be invested in. And I think that's what you're going to find across the industry that if it fits in, if you can optimize, if you can improve in the -- and sort of improve your portfolio within those parameters, you'll see investments.

But you can't overweight one other side because you will throw out your measure on emissions or you throw out your measure on how much you've spent on renewables if you increase your oil and gas portfolio too much.

And consequently, the other way around, if you might throw up returns if you push it too much into the velocity into the future. So that's the parameter that means that just increasing more because there's a higher price, investing more because there's a higher price, will, the holistic picture doesn't work necessarily today.

Mads Romer Holm - *Equinor ASA - Head of Finance*

Operator, operator, I think we can take one more question, and then we end the call.

Operator

Okay. The last question is from Matt Lofting from JPMorgan.

Matthew Lofting

Two quick ones, if I could. First, I think you talked right at the top of the call about tight supply setup and the importance of underpinning industry investments to support energy security. So just sort of following up and extending on the previous comments, whilst there may be a lag around this in the context of unchanged CapEx guidance and the balance sheet sitting where it is.

Can you talk about the extent to which Equinor is assessing additional project and particularly gas-related opportunities to build into sort of the backdrop that we see today? And within that, mindful of the cost inflation comments that you made earlier, the extent to which leaning more into buy versus build is a consideration in this environment?

And then secondly, on cash taxes, I think guidance sort of very clear in terms of the sort of the installment going into the third quarter. Historically, and if I remember rightly, in 2021 as well, the company has made the accelerated payments in Q4 to sort of catch up on that sort of delay prior to year-end.

Is that something that you're anticipating as a possibility this year and sort of factoring into the way that you're looking at the balance sheet position?

Ulrica Fearn - *Equinor ASA - Executive VP & CFO*

Very good questions. Thank you, Matt. I do agree. We are investing more, would be a good thing to do in this time. It would be good as long as it meets what I just talked about, our total portfolio velocity into the transition as long as it meets the return criteria.

And we are -- and to your question about are you assessing this. We are absolutely continuously assessing. I keep saying the best place for this money is to be invested in the business, but we also need to be very clear that we create long-term sustainable -- we invest in long-term sustainable, profitable projects.

And as I said, that we take the holistic picture as to what it does to our energy transition plan into consideration. But what we will continue to do within all of this, we will continue to explore. We've said we're going to continue to explore for oil and gas, and gas around on the NCS. That wasn't always so popular.

We've -- we said we will continue to do so. That is now much more accepted. We will continue to do so with the way we've already communicated. We will continue to see what we can do to secure gas production and continue to invest in our current assets as well.

And I do think from a cost inflation point of view, we are -- yes, there is a build capacity constraint and looking at clever ways, smart ways of buying capacity of finding smarter solutions as to how to increase capacity is and maybe buy in some capabilities is also something we're looking at. But as I said, we will be doing that on an ongoing basis, needs to fit into that overall financial framework and emissions framework at the same time.

So we are -- this is a big, big topic on our agenda as to how to invest more to get better, faster and still remain -- keep the returns or even improve them. In terms of cash taxes and the accelerated payment then -- that the last -- this same mechanism exists this year, and we will be carefully looking into and seeing what we need to do depending on where the prices are at that point in time to see how we can -- and if we should utilize that the same way as we did last year.

Operator

In the interest of time, we have to stop the Q&A session, and I would like to hand back to Mads Holms for any closing comments. Please go ahead.

Mads Romer Holm - *Equinor ASA - Head of Finance*

Thank you, operator. Thank you to Ulrica, May-Kirsti and Svein, and thank you all for your time this morning. As always, if there's any further question that you have, please contact investor relations team on the usual numbers, and we'll get back to you as soon as you can. So once again, thank you for your time this morning, and have a great day.

Operator

The conference has now concluded, and you may disconnect your telephone. Thank you for joining, and have a pleasant day. Goodbye.

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