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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome, and thank you for joining the Equinor Analyst Q1 call. (Operator Instructions)

I would now like to turn the conference over to Mr. Peter Hutton, Senior Vice President. Please go ahead.

Peter Hutton - *Equinor ASA - SVP of IR*

Thanks, Natalie, and welcome, everybody. Ladies and gentlemen, welcome to the Equinor Results Call for the first quarter of 2022. I'm Peter Hutton, and the Head of the Investor Relations team and the call will be led by Ulrica Fearn, Chief Financial Officer. Ulrica will present the results for around 15 minutes, and then we'll open up for questions as usual, and we'll aim to finish the call within the hour. Also on the call today, we're joined by Svein Skeie, who's the SVP of Performance Management and Risk; and May-Kirsti Enger, who is SVP of 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, Peter, and good morning, everyone. Today, we present strong financial results, which reflects continued effective progress to deliver on our ambitions and guidance that we outlined in our capital markets update. And it includes building on our competitive strengths, optimizing our upstream production at low cost and low emissions, grow profitably in our Renewables business and develop low-carbon solutions. All this whilst maintaining focus on cost and returns, generating cash and providing attractive returns to shareholders.

In the first quarter, we do demonstrate our ability to put our ambitions into action. However, the background of the results reflect the dark realities of a war in Europe, adding to an already tight and volatile energy market. We acted decisively after the Russian invasion, announcing the plan for exiting our Russian assets just 3 days later. After 30 years in Russia, it's no longer possible for us to operate in the country. Before the invasion, we had some contracts for future delivery of oil products. On the partner-operated field, Kharyaga, one cargo has been lifted and sold after the invasion, of which Equinor received payment. No new contracts have been entered into and we comply with all relevant sanctions, and the process of exiting our Russian assets is progressing.

We started the year with an already tight energy market, and the invasion of Ukraine and sanctions against Russia have added to that uncertainty. Energy from the Norwegian continental shelf now plays an essential role supporting energy security for Europe. Our main focus is to provide safe and stable production from our facilities. And since the start of the present energy situation, we have successfully done our utmost to produce and export more gas.

Several steps have been taken to increase our gas production with increased production permits and changing operation to export gas rather than inject to increase oil production in certain fields. We've also adjusted our planned turnarounds in order to maintain high production levels throughout the summer. And further, Hammerfest LNG is on track for safe startup on the 17th of May.

So there's been much focus on gas, but the oil market is also affected by the war and the sanctions. The Sverdrup crude is a good replacement for Ural crude, and we noticed the effect on our cargoes. Last March, more than 60% of the volumes from Sverdrup went to Asia, whereas this year, all volumes have stayed in Europe. The energy crisis in Europe has moved energy security to the top of the agenda, yet the trilemma remains to be solved simultaneously achieving energy security, energy affordability and the necessary energy transition. We work along two lines. We're committed to support energy security whilst continuing to accelerate the transition needed for achieving the net zero ambition in 2050 and progress towards the net reduction of our own emissions by 50% by 2030.

At our general meeting, our investors will get the opportunity to support our energy transition plan through an advisory vote. The plan shows how we will help secure sufficient energy whilst cutting emissions, increasing the production of renewable energy and developing value chains to help our customers decarbonize. The energy transition plan provides an overview of specific measures and goals and is based on the strategy we presented last summer.

We have seen good industrial progress in the quarter within all three strategic areas. On the Norwegian continental shelf, the fifth and final platform was installed at Johan Sverdrup and Njord A is back on the field. Both are on track for start-up in the fourth quarter. And so far this year, we have announced two commercial discoveries, both close to infrastructure in the Troll/Fram area.

Within Renewables, our large projects are progressing well, with Empire Wind passing several milestones in the quarter and Dogger Bank starting offshore construction with laying the export cables. The Hywind Tampen turbines are currently being assembled and is on track for startup in the third quarter.

Low carbon solutions are progressing well, with the Northern Lights project that will be the first commercial plant for CO2 storage with capacity for 1.5 million tonnes per year. We are in discussion with potential industrial customers to develop Phase 2 of Northern Lights, taking the capacity to 5 to 6 MTPA. And we were recently awarded two operatorships for CO2 licenses on NCS. The largest, Smeaheia, where our share is 100%, will have capacity to store 20 million tonnes of CO2 per year, and this equals around 40% of all of Norway's current CO2 emissions. And with this, we can help our customers and societies decarbonize and successfully achieve their climate ambitions.

In the quarter, we delivered very strong financial results with -- driven by high prices of both oil and gas, but also supported by strong operational performance. The high cash flow strengthens our balance sheet, and in these uncertain times, we use this to build resilience. At our capital market update, we announced a significant step up in our capital distribution, and now we are delivering on this. Based on the continued strong prices from second half of 2021 and earnings in the quarter, the Board has decided on a cash dividend of $0.20 per share and an extraordinary cash dividend of $0.20 per share. Subject to approval at the AGM, we proposed a second tranche of the share buyback program of $1.33 billion, in line with the level communicated at CMU of up to $5 billion in 2022. With this capital distribution, we balance investing in the energy transition at the same time as we deliver competitive returns to our shareholders.

The 12-month average serious incident frequency is 0.5. Most incidents are associated with dropped objects and lifting operations. The total recordable injury frequency for the past 12 months is 2.4, and we continue to work systematically to find root causes and understand why incidents occur and learn from this.

We delivered a strong operational performance for oil and gas and electricity. Our equity production for hydrocarbons totaled 2,106,000 BOE per day, and adjusted for the sale of Bakken, the production is stable from the first quarter of last year. We have a high production efficiency with low unplanned losses while also taking several steps to increase production of gas to Europe. On NCS, the effect of this is clear with a 10% increase of gas production. Martin Linge is approaching full capacity and contributes strongly.

Our U.S. production is lower than last year, mainly due to the sale of Bakken and reduction in the drilling and completion activity onshore when the pandemic started. And in Brazil, the production from the first wells in the Roncador IOR project started, an important milestone for improved recovery on the field.

Our electricity production from renewables is up 13% compared to the same quarter last year to 511 gigawatt hours. The main contributor to the increase is the solar plant in Argentina, but with solid operations and better wind conditions, our offshore wind farms also increased their production.

Our adjusted earnings totaled $18 billion and $5.2 billion after tax. IFRS net operating income ended at $18.4 billion and IFRS net income at $4.7 billion. Energy prices increased in the quarter and so too did prices for electricity and CO2. In the quarter, we see impact on our costs through the higher CO2 costs, both for the EPS quotas and the Norwegian CO2 tax. In addition, higher electricity prices affect some of our plants, such as Tjeldbergodden and Mongstad. That being said, we have also seen the effect of higher electricity prices in our offshore wind farms that are exposed to the market price and good power trading results from Danske Commodities.

So in a world with increased inflationary pressure and high commodity prices, we follow the cost development in our operations and supply chains closely. Also, the electricity prices are closely linked to the high gas prices, and the gas price was indeed a strong driver of our results.

For our Norwegian upstream business, the average realized price was $140 per barrel of oil equivalent. High commodity prices are the main reason for the reversal of impairments in the quarter. In the U.S., our impairment reversals totaled $532 million, and a total of $817 million is reversed on the NCS. Including impairments of $1.1 billion as a consequence of exiting Russia, the net reversal of impairments is $266 million. The tax rate in the quarter is around 71% due to very strong results on the Norwegian Continental Shelf.

And now over to the segments. Our Norwegian upstream business had a record quarter with more than $16 billion in adjusted earnings before tax. EPN has successfully increased production and managed costs at a time when reliable supply is even more important. And our international upstream business outside the U.S. delivered strong results as well with adjusted earnings of more than $1 billion before tax.

The U.S. upstream business, delivered high results even with somewhat lower production with adjusted earnings of more than $700 million before tax. And remember, we now benefit from tax loss carryforwards from previous periods. We are also benefiting from the long-term improvement work done and see improvements in the underlying costs here.

The Midstream and Marketing segment delivered adjusted earnings of $22 million. Also in this quarter, MMP recognized losses following different price hedging mechanisms and contracts entered into in periods with lower prices. Again, the positive effect of hedging bilateral contracts is recognized in internal price achieved by our upstream businesses. Within our reported numbers, MMP's results is, however, also strengthened by good trading results, including strong results from Danske Commodities.

Our Renewables business posted a negative result of $10 million, whereas the result -- the adjusted result from our producing facilities totaled $47 million. Only a few of our offshore wind farms are exposed to market prices, and these benefited from higher electricity prices. We are progressing the rapid development of the renewable portfolio, and the high activity level reduces the result of the segment.

Our cash flow from operations totals more than $20 billion. In the quarter, taxes paid for the Norwegian continental shelf totaled $4.1 billion, being one of the three remaining installments based on 2021 results, leaving two remaining installments for the second quarter of a total of more than $8 billion. In the second half of the year, our taxes on NCS will be based on the 2022 earnings.

Cash to capital distribution in the quarter is just over $1 billion. This includes the third quarter dividend and the market share of the share buybacks executed in the first quarter. The government share of the share buybacks conducted in 2021 and beginning of 2022 will be paid for in the third quarter. At our Capital Markets Day, we announced a significant step-up in capital distribution. Also, this will be part of our cash flow in the second quarter.

We maintain our strict capital discipline, and as mentioned, we follow the cost development in our projects closely. And supported by this, our net cash flow ended at $12.7 billion. This strengthens our balance sheet substantially. With the market movements we have seen over the last few years and the current uncertainty in energy markets as well as upcoming cash payments, it's a good time to retain this strong balance sheet position with more cash than debt.

It's not long since our Capital Market Update and our strategy remains firm and we made no changes to our guiding. We expect to invest around $10 billion on average this year and next, contributing to new production of energy for energy security as well as accelerating the transition towards low-carbon energy sources.

And with that, I'll round off here and open up for questions. But before we open up for questions, I will also mention that I've got my team here, as Peter said, including Svein Skeie, who's currently heading up our Performance Management and Risk. Svein has been heading up Performance Management and Risk and answering analysts' questions for [more than] (corrected by company after the call) 44 quarters and including as CFO. So with that level of experience, it's great to see him moving on now into one of our businesses, joining MMP as SVP for new value chains from the 1st of June. And I'm sure a lot of people will pass on their best, Svein, but I'll do so here, and look forward to working with you in your new role, Svein. So thank you. Thanks. And we'll hand over to questions, Peter.

Peter Hutton - *Equinor ASA - SVP of IR*

I do the same, and then we'll pass over back to Natalie to open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first 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*

Two please. The first one is on your European gas sales. For Q2, and if you can answer for 2022, I just noticed there's quite a big divergence between NBP and TTF, just to help us model going forward. Are you able to give -- or let us know whether your European gas sales are weighted more towards NBP or TTF in the short term? And if you can provide a rough split, that would be helpful, too.

And the second question is on your distributions to shareholders. I understand there's no change in the plan today, but it's not surprising, given you just laid out the plan in February. But you're obviously in an extremely strong cash position, and CapEx guidance is also relatively modest versus history. Should we assume that you'll only review your distribution framework on an annual basis alongside full year results? Or will you look to review it maybe twice a year like some of your peers?

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

Thank you very much, Biraj. Great questions. I'll start with the first one. And I won't give you a split here, I'm afraid, because it isn't fixed. And we haven't -- we've got significant flexibility, both here on physical delivery and trading between the two. And with direct volumes, we see more value to be made here and making the right choices. So it's an attractive source of value and commercially sensitive, so I'm afraid we won't disclose that.

On your second question on distribution, you're completely right. We just laid out our capital distribution. It was a big step we took in February. But we will stick to our capital distribution policy, as we've laid it out, which is reviewing where we are depending on the circumstances in the market and where we are. And we do that on a quarterly basis, where we are at the moment, and in this quarter, we have assessed to stay where we are, given the volatility, but we will also do so in the second quarter and onwards. So we will keep on doing that throughout the year.

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

Okay. Understood. Can I just follow up on the first one? I don't want to press it too hard, but I'd be interested to get your thoughts on whether you see any fundamental reason for the disconnect as seen today outside of kind of regional differentials in storage between NBP versus TTF? Any thoughts on that would be appreciated.

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

I think at high level -- I mean we do see differences, but whether they're fundamental and staying in restraint, that sort of gets taken into the sort of our thoughts and our positions. But of course, we are seeing opportunities here, but it's just there are some differences, and we seek to get a longer-term view of those and take the opportunities as they come along. But I won't share the very details behind that here.

Operator

The next question is from the line of Oswald Clint from Bernstein.

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

Svein, good luck to the new role. Look forward to seeing what these new value businesses are. Ulrica, so just on the topic of very sizable cash levels on the balance sheet. I know you mentioned uncertainty, resilience. But I wanted to ask you, just the appetite here to perhaps accelerate perhaps inorganically in some of the markets where you're seeing faster growth. But pointedly around natural gas, but specifically LNG. And whether the Board thinks or reviews or talks about should Equinor be bigger in the LNG value chain, whether that comes with participating in some new future green fields or some of the smaller companies who are building some of these? Is that something that you discuss or think might be kind of future business opportunity for Equinor?

And then the second question, just you mentioned monitoring inflation across the business. I mean there is talk here around U.S. steel costs and how it might affect U.S. offshore wind. Your partner yesterday was talking about being big enough to hedge steel and also to extract cost reduction synergies, and didn't feel to be too concerned about some of the news flow. So I wanted to get your comments or your thought process around protecting some of the big offshore wind developments that you're currently still building.

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

Great. Thank you so much, Oswald. The first question on LNG and -- well, more in general, first, I think, in terms of reviewing capital expenditure. I think what are you reviewing investment opportunities. The best place for us to invest our money is back in the business for future revenue stream. And how we prioritize and invest those is clearly, in general, outlined by our strategy. Within that, in an environment like this, we have to make sure we understand that we've got the right velocity. And we will be searching for those opportunities that fit into the framework that we've laid out. And we will be doing that across the portfolio.

When it comes to LNG, we have a high exposure to LNG, and I think we're the largest seller to Europe. And we basically have a good position there already. We're overall sort of reviewing the overall position. But if -- what's happening here long term is one thing, in terms of how you then invest long term and quickly to react to the short-term market forces is the hard challenge. But we'll be keeping on across -- looking across the portfolio to see if there's anything that fits in with the direction we've already set.

And the second question is around inflation. I'd say -- and steel, et cetera. We are clearly monitoring it closely, as you say. And we do see some sort of costs coming up and as do everyone else. Of course, in our short-term already sanctioned projects, we have fairly strong positions. And we've been -- we've locked in our rates for that. In the longer outer year, a bit more exposed, but we will be drawing our -- in all of these categories, we've got a clear view of what's going on and how it impacts our contracts, how it impacts our products and working deeply with the suppliers, to be honest, firstly, secure the supply, and then secondly, secure the right prices.

So we are monitoring it closely, but we do feel that we need to stay ahead, and we are ahead by having some contracted in already. And then we are starting to working now on the outer contracts So closely monitoring, seeing the trends, but not overly concerned, but we are seeing it coming into our books slowly.

Operator

The next question is from the line of Mehdi Ennebati from Bank of America.

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

So two questions, please. First one, maybe on your U.S. gas production in the Marcellus. Can you please tell us what you are expecting regarding that U.S. gas production trend? Or maybe can you just remind us how many -rigs do you currently have in the Marcellus? And how many rigs do you expect to get by the end of year, just for us to try to measure your exposure to that growing natural gas price.

The second question is about your taxation in Norway. Is it fair to consider that, as usual, you will pay roughly twice the tax level in Q2 compared to Q1? Or should I take into account anything particular this quarter, just to make sure I'm not missing anything.

And maybe just a small follow-up on that, the correlation between NBP and TTF. I understand that you don't want to tell us what it is currently, et cetera. But would you be able to tell us for last year, what was the portion of your European gas production that you were sending to the U.K., please?

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

Thank you. I think that was three questions. I'll start with the tax in Norway. And in terms of installments, it's the same pattern as you've seen in the past. You shouldn't expect anything different from what it's been in the past.

With regards to the U.S. gas and Marcellus, I'll -- we've got production -- let me see. I'll hand over to Svein to answer that question.

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

Yes. In general, on the U.S. onshore production, of course, this quarter compared to last year, the main impact coming then from Bakken, the oil part that we divested. But also in the Appalachian part of it. We see that there have been some natural decline there. We took down activity in the

COVID period and took that down on our operated part and didn't have any rigs on that front. But also the non-op, both the north and south has also been taken down.

However, what we see now is that activity is coming up again. So currently, there are 4 rigs in some over the north and south that is drilling. And by that, we also expect now during the year that the production in the Appalachian will then start to pick up as a result of that one.

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

Thank you, Svein.

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

When do you expect the production to pick up in the U.S.? Should we expect end of year or more end of this year?

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

It will gradually start to come back. We are now putting the DUCs in, the drilled, uncompleted. Those are the ones coming in firstly. And then you do the drilling and do the completions and then it comes gradually as during the year.

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

Very good. Thank you, Svein. And on the split, we can't supply. It's commercially sensitive for the -- even for the last year. Thank you.

Operator

The next question is from the line of Lydia Rainforth from Barclays.

Lydia Rose Emma Rainforth - *Barclays Bank PLC, Research Division - Director & Equity Analyst*

I have two questions. Actually, it's probably going to be three. Svein, I thought we have seen 11 years within that. Just in terms of the operational side, where -- what do you think has been the biggest change since you've been in that role? And where are the improvements still left to come within the business? And then I was just curious as to what the new value chain within the MMP that you're looking to develop?

And then secondly, if I could just pick up on Mehdi, I think. I'm not quite sure if I'm pronouncing that right. Just 20 million tonnes is a big number. Just give us the time frame on that kind of whether you're thinking about inorganic versus organic opportunities, whether that kind of -- that's enough in terms of how you want to develop that CO2 business, again, the willingness to pay for it.

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

Thank you very much, Lydia. And I'll start with handing over to Svein for the first 2 questions.

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

Thanks a lot, Lydia. Reflecting over on that one, I think if you look now at the operational performance with the production efficiencies, the things that we have been able and to do over the years by bringing down unplanned losses quite a bit and then being able then to, in this quarter, as one example, high and reliable production. That has been a major thing. The huge benefit that we have seen from the integrated operation centers and being able then to deliver on that front.

On the safety side, good performance. The trend coming in there, that has been very good. But then also the portfolio development there and the focus that we have had on the resilience and utilizing the optionality, working with it, bringing down the cost there. That has been an extremely good development over these years.

On the new value chain, of course, I will come back further to that one at a later stage, but it's also what we see that it's working then more towards the customers, ensuring the flow's there, looking at the energy that we are selling in totality. That is something that we really, really can work with and will work with in the coming years.

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

Very good. And I think you had a question around Smeaheia and the CO2 storage. And the ambition around that is to develop the licensing to a 20 MTPA storage solution. And that's for Equinor projects. So clean hydrogen to Europe and H2BE in Belgium, but also for our external customers. And this is -- it is very exciting. It's -- it will enable us to expand our CCS business, which is crucial in succeeding to meet our goals and meeting the climate ambitions for industries that want to store CO2. So this is a big opportunity for us. And you said about investing further into this space. I mean here's a big focus that can really take us forward in that area. And making that happen is going to be a big focus for us going forward.

Operator

The 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. First, just on your previous guidance of 15% to 30% net debt to capital employed through the cycle, how should we think about that going forward? Are you moving away from that target leverage ratio?

And my second question is just on supply chain and costs. You already explained that you have seen some cost increases for steel, for example. But I just want to know, are there any particular places in the value chain you see a more tighter supplier market than what you did a couple of years ago, other than just a commodity price effect?

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

Thank you, Teodor. And on the 15% to 30% range for our net debt ratio, we are sticking to that. We are in exceptional circumstances at the moment, and the world is very, very volatile. We believe, long term, 15% to 30% is our long-term target for net debt. And we don't have to go back far before we were at the top end of that. A year and a quarter ago, we were above 30%. So this is exceptional times and -- but we're not changing our 15% to 30% net debt ratio. We believe that is the long-term effective way of running the business under normal circumstances.

You're touching on cost and actually supply constraints. And I think, absolutely right. I mean we do see some costs, higher environmental costs, some higher operational maintenance cost. But really, there is also the other sort of supply chain constraint risk out there. And we do see some of that coming through.

And, I mean, those freight rates have increased again, which means that -- it's mainly a cost, but it also starts impacting the supply chain itself. Engineering and construction, global engineering services, for example, is very tight. The number of FPSOs under construction is the highest in many years. And rigs utilization is fairly high.

So there are -- it's not just constrained. It's also very high capacity running on all different areas. And we need to be very, very observant of that and work closely with our suppliers, and this is a little bit why I referred back to not just cost but making sure that the security of supply is as high on our list as the cost of supply. So yes, we do see a tight market in many areas and depth -- deep supplier relationships is what we feel is going to be needed to get through this for both sides.

Operator

The next question is from the line of Alastair Syme from Citi.

Alastair Roderick Syme - *Citigroup Inc., Research Division - MD & Global Head of Oil and Gas Research*

Two questions. You talked about Norwegian tax payments in the second quarter, but would you care to make any comments about an early view on how you think those will come second half? And then secondly, the decision to raise gas up at Oseberg and Troll, my understanding that these were geological considerations. So other than the gas price, what's really changed to allow those capacities to be raised?

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

Thank you. And when it comes to the first question, Alastair, I'm -- we won't be giving any guidance on that because that would be giving guidance into the second quarter, and we'll be coming on to that in a quarter. So I won't be doing that now, but it will come a little bit later.

So in terms of Oseberg and Troll and the business cases behind that, it is -- I mean you're absolutely correct. It's a deep assessment as to what's right and what's the right economics and possibility from a gas versus -- export versus injection point of view. And every site has got its own specific features, and there will be a business case for each. And of course, at different price ranges, it will look different.

And so we are basing this on an ongoing basis on business cases that we will then reassess as we move forward, depending on the overall environment as well as the specific geological sort of features of that site, if that makes sense.

Operator

The next question is from the line of Yoann Charenton from Societe Generale.

Yoann Charenton - *Societe Generale Cross Asset Research - Equity Analyst*

Congrats, Svein, on the new role. I understand it is sensitive to discuss this divergence in pricing comparing NBP to Continental Europe and benchmarks, so I won't ask about physical flows. But are you able to tell us if Equinor has taken paper position to mitigate the spread?

Second question, looking at the organic CapEx figures that was reported in the first quarter, just trying to understand because, I mean, indeed, it is down year-on-year despite higher full year guidance for the year than for 2022. Are you able to explain what are the drivers behind this low number? And can you provide a sort of ramp-up schedule throughout the year? Or we should look at basically organic CapEx ramping up?

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

Very good. Now -- and on your first question, Yoann, I cannot tell you what our strategic positions are, and we have shared that we do take them at time to time. But I can't share with you what they are.

And Peter, you can add to that.

Peter Hutton - *Equinor ASA - SVP of IR*

Just to save further time on the call. These are commercially sensitive positions. We trade around these. It gives our positions away. So it's nothing that we -- we've got interest in giving full disclosure, but not when it's going to compromise our trading position. So keep trying, but we can't give an answer on this one, I'm afraid.

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

And on the CapEx question, we have -- it's fairly normal levels, where we are at the moment. And we have a gross CapEx of $2.2 billion on that. And it's where we expect it to be. It will raise a little bit, as guided, to the end of the year. So we will come back towards the annual figure that we quoted and also will reflect, as we go along, increased activity rates on REN projects as we're coming through the year. So it's a little bit maybe back-ended from a phasing point of view, but we -- this is pretty much normal levels.

And we are quite happy with this level of investment at the moment as well because, again, we get to -- we know what we need to go after. We want to deliver it in full before we're rushing into doing more that we can't -- biting off more than we can chew. So happy with the level, and it will ramp up a little bit due to the activity rates in REN for the rest of this year.

Operator

The 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 noticed that you have reported what seems like full production from Russia in Q1. I just wondered, have you also booked revenues? And also, how about going forward in Q2 and for the rest of the year? Will you be able to -- will you report production revenues or ownership in these assets or not? And what will actually happen with your Russian assets? Do you presume they are gone forever? Or are you trying to sell those assets? Or what will actually happen, please, a little bit about the Russian assets, please?

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

Yes, thank you. So as I sort of briefly mentioned before, our decision to exit Russia, we took on the 27th of February, and we're in the process now to exit those assets. And since then, we have stopped all investments into Russia after that date. And we took an impairment this quarter of over $1 billion. And there is, therefore -- given that we stopped all trading with oil products from Russia, there is nothing more to come in from a production point of view, from a revenue point of view or a cost point of view into our results going forward.

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

From Q2, you will not report production from Russia. Is that...

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

That's correct.

Peter Hutton - *Equinor ASA - SVP of IR*

Yes. And what you see in the first quarter is effectively those production really in January and February.

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

Yes, January and February. There's a little bit from -- Kharyaga in March. But that's it. So it will be completely gone by the second quarter.

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

So January or February production was just -- was the same level as for the full quarter -- the previous quarter. Some of the things are improving in Russia when you're leaving.

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

Well -- yes, roughly, yes.

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

Okay. But what do you think about your assets? Are you trying to sell them? Or do you presume they're lost? Or what will...

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

Well, as I said, what I can say is -- what I'm saying is that we are in the process of exiting those assets, and we're actively working on that.

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

Okay. My second part of the question is, if you could please give us an update on the Peregrino and the expected -- the timing of the restart of Peregrino, please?

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

So it's on track to be -- to pick up, and we are where we need to be. And I think it's the fourth.

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

It's during the summer.

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

During the summer, yes, that's right.

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

That's when we expect to start it up.

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

Yes. So it resumes in summer 2022. And as I said, we're -- there's no news from where we were before, which is good.

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

Is -- the summer, is that in -- will that be Q3. Or sorry, can you be a little bit more specific?

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

We've said summer 2022.

Peter Hutton - *Equinor ASA - SVP of IR*

And summer means summer in Brazil, not...

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

No. Summer northern hemisphere is not summer in Brazil.

Operator

Our 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 couple of questions from my side. The first one, following on the topic of cost and inflation on the upstream side of the business. I mean you actually mentioned that there's a decline in underlying cost in the U.S. Is that something that we should expect to reverse for the rest of this year? And then what do you expect the rest of the upstream business?

And then secondly, on the MMP trading performance, strong performance in the first quarter. Can you give us any sense as to whether that's something that we can expect to see in the second quarter?

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

Thank you very much, Henri. On the costs, I mean, if you refer to the cost in the U.S., where we've had a bit of a benefit is that, that was our sort of restructuring of that business that's coming through at the moment. In terms of what we're expecting in general on cost, we do see a pressure on cost in upwards. However, we are very active in trying to, one, mitigate those costs, but two, find improvement programs. We've got a big improvement program that tries to also mitigate what is coming through anyway.

So we are sticking to our sort of ambition to -- for UPC. And -- but it is -- we do see pressures coming into our results at the moment. I will say that some of those inflationary pressures come into our revenues as well. So that's the little bit of a saving grace. But yes, we do see pressures and try to mitigate them. And for now, we're sticking with our CapEx guidance as it is, and we're sticking with -- we're trying to mitigate it through other means if we can't directly.

MMP, on what's coming through on MMP is two things. We've explained to you and also the invitation to consensus is the impact of -- from the positions that we have, but it's also mitigating that good trading in this quarter across the board. We have, basically across a different element of the portfolio in this market, managed to create a bit of upside anyway. In volatile markets, there is more of that to be had. So it's both. It's a downside that we've indicated, but it's also better trading coming the other way. And I called out Danske Commodities before.

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

Okay. So those I can follow up on the key thing to make those is the level of volatility in both the oil and gas market to get a sense of performance, especially in the second quarter?

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

Sorry, I couldn't quite catch that. I'm sorry.

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

Just for the trading performance, a little key driver to watch is the level of volatility in oil and gas markets?

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

What's the key drivers? I mean it started before Ukraine, really. And it's the tightness of supply and the shift in demand on the back of COVID that started it. And then you've got the overall supply and demand complication from the Ukraine conflict on top of that.

And I will say, we can probably say we've seen more volatile markets after that and recently rather than less, and it seems to be continuing. So it's an unfortunate situation that drives a lot of volatility. But -- so we're glad to be able to leverage back on that to make sure we can secure supplies and take our positions accordingly.

Operator

The next question is from the line of Jason Kenney from Santander.

Jason S. Kenney - *Banco Santander, S.A., Research Division - Head of European Oil and Gas Equity Research*

Just building on a couple of earlier ones on CO_2 storage, I think Lydia was asking. Can you kind of walk me through a theoretical future value chain or project DCF? I mean is it like an upstream cash flow with upfront CapEx and ongoing OpEx, and then volumes injected at a price rather than volumes produced at a realization? Or is it a bit more integrated than that?

I'm just trying to start thinking about the investment you're going to be making and looking at some paybacks and maybe even breakevens for projects within the next decade or so. Yes, I think that's it on CO_2.

And then secondly, just -- I mean I don't know on the Kharyaga cargo that was sold in March. I don't know -- have you said whether you'll keep the profit from that? Or is it going to be allocated elsewhere?

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

So we'll start on the CO2 question. I think I could answer that very long or I can also answer it very short. I mean the potential for CCS in Europe and this sort of type of projects that we're talking around is quite big. And sort of the basic mechanics comes down to the ETS price and what is more economical, I guess, for the customer to do one or the other. And several customers are showing interest in capturing and storing CO2 and are not directly worried about cost immediately. It's more the possibility of doing so, and that goes through the supply and demand side.

So this is about capturing the cost but also in the right way, and it varies with the sector and it varies of the sort of type of storage that you do. And transport and storage costs will, in general, benefit quite a lot from economies of scales. So this is -- taking all that into consideration and that the market is very, very young, it's -- that's part of Svein's job is to really work out what the value chain is going to look like here.

But we do see that with the assumption of ETS prices, where they're sort of heading towards now, there is a viable business here that will make economic sense for a range of industries to implement CCS rather than paying those taxes for emitting. And we're sort of pretty much there or thereabouts at the moment with the ETS price to make a good economic business case for it.

So you will hear us working that through, and we'll share more specifically on the returns on that as we go through. But we do feel that there is a viable case that will give us sensible returns to then invest in. And the plan is to invest as we develop that as a sort of third area of focus going forward.

And I think in terms of the cargo, we're -- yes, we've taken that cargo. And that's -- as we said, it was taken before and contracted before all this started.

Jason S. Kenney - *Banco Santander, S.A., Research Division - Head of European Oil and Gas Equity Research*

So you're keeping the profit?

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

So we've taken the cargo, yes.

Operator

The next question is from the line of Anders Rosenlund from SEB.

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

We've already established that you have a long-term leverage target of 15% to 30%, and it's currently 32% negative. So how will Equinor get to its leverage target?

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

Yes. It's -- I shared a little bit earlier on as well is that it's -- we've got quite a lot of demands on our cash going forward from here. The best place for that cash is clearly investing in the business, and we will be doing that to the tune, as I said, about $10 billion of CapEx. Secondly, we have a capital distribution program that we pushed quite a lot higher than in February. So that's another $10 billion to spend.

And then we have got also a large tax payable sitting on our balance sheet which -- on the back of the revenues that we've got. And in terms of paying that, we'll basically shift the net debt ratio quite significantly into positive territory. So that's -- when we make these decisions, we look --

this is how we have to look at it. We need to look at it long term and into the future, taking into consideration all the calls that we have made, all the calls that will come and also the delay in the tax payments that we've got. So that's where we are.

We will continue, as I said before, to look across the portfolio and to understand whether there's any further great investments that fit into our strategic portfolio. But the big calls are coming in the next 6 months, and we've clearly got the balance sheet to be able to support that.

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

And then I just have a follow-up, because you're reiterating your guidance for CapEx spending through 2025, which is far into the future. Does that mean that, that has been reevaluated recently? Or is simply that a continuation of what you guided for in connection with the CMU?

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

Yes. It's exactly the same as we said in connection with the CMU. And we do keep assessing it and especially in a world where we are looking at, at the moment, but we feel comfortable with that level of spending. And it's a step up, which it should be, and it's a step up and a shift also in terms of where we spend that CapEx, more and more into the renewables business. So we're comfortable with the $12 billion for '24 and '25, and it's completely consistent with what we said in February and back in January the year before -- sorry, in June, the year before.

Operator

So there are no further questions at this time, and I would like to hand back to Peter Hutton for closing comments.

Peter Hutton - *Equinor ASA - SVP of IR*

Thanks, Natalie. Well, thanks, Ulrica. Thanks, May-Kirsti. Thanks, Svein. And thank you for your time this morning. I know things are busy. As always, if there's any further questions that you have, please contact Investor Relations on the usual numbers, and we will get back to you as we can. But thank you for the time this morning.

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

Thank you.

Operator

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