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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome, and thank you for joining the Equinor Analyst Call Q2. (Operator Instructions) And 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*

Hi, and thank you, and welcome, everybody, to, as we say, Equinor's 2Q '21 Results Call. Peter Hutton, Head of Investor Relations, and with us today, I'm very pleased to introduce Ulrica Fearn, who, as you know, started as CFO just over a month ago and who will take us through the results and the main points. And then we will open up for questions and answers.

The operator has just run through the process, but she'll give a reminder after this presentation. And we expect the call to finish within around the hour. Also joining, as on previous calls, we have: Svein Skeie, Head of Performance and Risk; Ørjan Kvelvane, who's Head of Finance and Accounting; Mads Holm, Head of Treasury and Tax.

So with that, let me -- I'm very pleased to pass over to you, Ulrica, to start it off. Thanks, Ulrica.

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

Well, thank you very much, Peter, and thank you all for joining the call today. It's a pleasure to be making this what is my first quarterly results call for Equinor, having started mid-June. As Peter said, this has been a good opportunity to get insight into the key drivers of performance in the organization. And while this call is by phone, I do look forward to the discussion and hope to have a chance to meet with you more directly in the near future.

So this is a good quarter, where we delivered strong financial results in which we were able to capture value through strong operational performance and cost focus. And this enabled us to deliver strong net cash flow, strengthening our resilience in an uncertain and volatile market. Compared with the same quarter last year, the price environment could hardly be more different. Last year has demonstrated clearly the volatility that can impact the industry.

But it has also demonstrated the advantages of being a resilient company with strong execution plans and a clear long-term strategy that also provides flexibility. With uncertainty still substantial, volatility remains, as seen last when, for example, Brent went from $76 to $68 over just a few days in July. The path of the economic recovery, development of commodity prices and inflation are some of the elements playing into the volatility.

Equinor has delivered solid and stable production through the pandemic. And last spring, restrictions prevented us from conducting planned maintenance on the NCS, leaving us with a catch-up effect and high level of maintenance this quarter. Despite this, we delivered high production with low unplanned losses at stable underlying costs. We have run our flexible gas fields at full capacity to capture additional value from the higher gas prices of the quarter. And we have also captured higher value from the deferrals we did last year. The result is strong cash flows, reducing the net debt ratio significantly.

At our Capital Markets Day in June, we presented our updated strategy for accelerating our transition whilst growing cash flow and returns. At the CMD, we also covered our industrial progress and the project portfolio. And since then, we have received government approval for Breidablikk PDO and have brought Martin Linge on stream. Looking a bit forward, Troll Phase 3 is well on track to start-up later this year. We do, however, see continued effects from COVID on some of our projects.

Restrictions are limiting the workforce in Singapore, where the Johan Castberg hull is under construction and the yards in Norway, where Njord A and B are being upgraded. For Njord, we now expect start-up during summer 2022. While we continue to watch and act on COVID, you should note we are currently developing over 20 projects and others remain on track or even slightly ahead. Overall, our projects coming on stream by 2030 have an average breakeven of below $35.

You will recall that, as communicated in our Capital Markets Day, the Board has decided on a cash dividend of $0.18 for the quarter. This is up 20% from the previous quarter and twice the level of the second quarter last year. And today, we commenced the first tranche of $300 million of the announced new share buyback program. This is the first of two expected tranches in 2021 of about $600 million in total.

From 2022, we expect yearly buybacks of shares of around $1.2 billion. This is a level which can be expected going forward, assuming an oil price in or above a range of $50 to $60 per barrel, an expected net debt ratio in the 15% to 30% range and supportive commodity prices. In periods with sustained higher price levels and the low net debt ratio, share buybacks can be used more extensively.

In this quarter, we see a stable trend for the Serious Incident Frequency but a negative trend for the Total Recordable Incident Frequency. For the last 12 months, we reported a Serious Incident Frequency of 0.5 and a Total Recordable Incident Frequency of 2.5 per million working hours. For us, this is too many incidents and injuries. And it is an area of real focus.

Solid operational performance and continued value focus enabled us to capture additional benefits from the higher prices and deliver strong financial results for the quarter. Adjusted earnings ended at $4.6 billion, up from $0.4 billion in the same quarter last year. But as mentioned, second quarter last year was very special. The IFRS net operating income came in at $5.3 billion and the IFRS net income at $1.9 billion.

In the quarter, we have seen net reversals of impairments of around $280 million, mainly due to the increase in short-term gas prices. This includes impairments of exploration expenses of around $110 million. The group tax rate in the quarter is 66%. This is up from 51.3% in the first quarter, when it was somewhat low due to low tax on gains on divestments in renewables. The tax rate of 66% is due to higher revenues from the NCS and also a higher than usual effective tax rate in MMP due to the earnings composition in this quarter.

So to E&P Norway. With adjusted earnings in the quarter of $4 billion, E&P Norway achieved the best result since second quarter 2014, when Brent was around $110 and compared to a small loss a year ago. Continued solid operational performance, stable underlying costs and flexibility in production enabled us to capture the value.

E&P International delivered earnings of $399 million, which is a further improvement from the first quarter. E&P International, of course, also benefited from the higher commodity prices but also from production growth of 7% from second quarter last year, reduced depreciation and lower exploration costs and stable underlying OpEx and SG&A.

In E&P USA, we see the effect of long-term cost improvements and portfolio optimization with a 7% reduction in the unit cost. The result ended up at $230 million and a significantly improved cash flow after investments in the quarter of around $500 million. The sale of Bakken was closed in the quarter and the payment contributed further to the strong cash flow.

Our Midstream and Marketing segment delivered a result of $144 million. The results are impacted by Hammerfest LNG shutdown and weak refinery margins. Cold weather in the beginning of the quarter, low storages after the cold winter in Europe and tight supply of European gas and LNG strengthened prices throughout the quarter. And we now see record-high summer prices, over $12 per million BTU. As reported last quarter, results are impacted by losses on derivatives in MMP on gas forward contracts entered into last year, offset by gains in other contracts. Some gas positions are still outstanding and will have a negative impact beyond the second quarter.

So in the Renewables segment, earnings from assets in operations, including the semiannual dividend from Dudgeon, was $37 million, up $7 million from a year ago despite lower wind. As you would expect from a business in build-up phase, this high level of activity on business development and progressing projects increase costs. You should, therefore, normally expect development costs to outweigh earnings from operating assets, except in quarters like last quarter, where we benefit from farm-downs.

We delivered stable production and solid operating performance with a total equity production of 1,997,000 barrels of oil equivalent per day. On the NCS, we conducted the normal planned maintenance as well as the catch-up on NCS from last year. The total turnaround effect ended up at around 100,000 barrels per day, significantly higher than the normal for second quarters. Despite this, regularity has been high and unplanned losses have been low.

The outage at our Hammerfest LNG plant and at Peregrino and as well as the sale of Bakken impacted the total production volumes in the quarter. This was partially offset by Johan Sverdrup increasing production to 236,000 barrels net to Equinor in the quarter, around 50,000 barrels up from the same quarter last year. With the increase in gas prices, we have leveraged our flexible gas fields and produced at full capacity on the NCS as well as increased production in U.S. and In Salah. Martin Linge was brought on stream and is now in the ramp-up phase towards plateau production in the first half of 2022.

Our offshore wind farms had high availability. But lower winds impacted the power production, ending at 282 gigawatt hours, down from 304 for the same quarter last year. We continue to progress our project pipeline. Our offshore wind project, Baltyk II and III, were awarded contracts for difference for up to 25 years. At full scale, these wind farms will constitute the hub for renewable energy in the Baltic Sea and support Poland's energy transition. We have high level of activity, maturing our projects and taking strategic positions, focusing on high-value growth, not volume targets.

The cash flow from operations is strong at $6.5 billion for the quarter and more than $13 billion before tax year-to-date. Increased prices, combined with improvements and strict capital discipline, all contribute to the strong net cash flow at $9.7 billion year-to-date. In the quarter, we paid around $820 million for the redetermination settlement process of Agbami, around $60 million less than the provision in our books. The tax payments on NCS for the quarter are based on our 2020 earnings and are, hence, low. From the second half of the year, the tax installment will be based on 2021 numbers. In third quarter, we have an installment of around NOK 12 billion, or approximately $1.3 billion, the first of three installments in the second half of 2021.

With the solid financial results and strong net cash flow, our net debt level improved significantly. Since the beginning of the year, we have almost halved our net debt level from 31.7% to 16.4%, making us more resilient towards market volatility. And today, we commence the first tranche of the share buyback program in line with the program announced in June. It is just over a month since our Capital Markets Day. So you would not expect changes to our guiding and we are on track to deliver.

So to summarize, we delivered strong financial results in which we were able to capture value through solid operational performance and cost focus. The results delivered strong net cash flow, which further improved our resilience in an uncertain and volatile market. We are on track to deliver on our guiding, and we commence our announced share buyback program.

So with that, I'll hand back to you, Peter, and I look forward to your questions.

Peter Hutton - *Equinor ASA - SVP of IR*

Great. Thanks, Ulrica. And I will actually pass straight through to the operator to remind on the polling of the questions and take us through those.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of Biraj Borkhataria of Royal Bank of Canada.

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

Best luck with the new role. I've got two questions, please. The first one is on the gas portfolio. You talked about the hedging and the derivative losses. Could you say from this point forward what proportion of your European gas sales are hedged?

And the second question is based on your comments on maintenance and the catch-up effect. Are you able to give any color on how long you expect the catch-up phase to kind of continue on for and when we'll get back into a more normal maintenance cycle?

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

Thank you, Biraj, for your questions. Yes, so let's start on gas and the impact from this point forward -and the proportion. What I can say is a small proportion on the gas on the NCS shelf, we took a position away from forward sales and it is reducing. And what I can say is it will have an impact on the next half. But I will say it's a small proportion. And I will also highlight that overall, high gas prices is very positive for our overall portfolio. And with the strength of that overall is very beneficial to the company.

On the sort of maintenance catch-up, we have done most of the maintenance catch-up in the quarter that we've -- we did a planned catch-up -- planned maintenance but also the catch-up. There was a little bit left in the next quarter but mainly in international. So I think we're pretty much up to where we need to be at the moment.

Operator

The next question is from the line of Teodor Nilsen of SB Markets.

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

First one, on cash flow and net debt that you highlighted, Ulrica. The net debt has come substantially down recently. I just wonder going forward, will you prioritize to buyback before cash dividends going forward? Or will you consider to increase cash dividend substantially?

And second question is just on CapEx. I note that based on your full year guidance, this far, you have only spent around 40% compared to what you plan to, to spend this year. Is it fair to assume that you will end the full year in the lower end of the guide -- the range of $9 billion to $10 billion?

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

Thank you for your question, Teodor. On the dividend -- with the low net debt ratio, yes, we do have -- we're pleased to see our net debt ratio where it is. And we have stated what our overall share buyback sort of framework looks like and that it does add some flexibility to our overall capital distribution framework. But we also did say that the Board will assess the overall environment based on not any one trigger individually. We have three main factors that needs to be assessed.

And one is around Brent oil prices, which needs to be within or above the range of $50 to $60 per barrel. It is also, as you say, the long-term net debt target ratio, where we're within but are in the bottom end of the 15% to 30% range at the moment. And we also need to see supportive commodity prices. So we are very pleased today to announce and start our share buyback program. We will continue to monitor these factors, but we will monitor them as a whole. And the Board will make a decision when they're all supportive for a substantial amount of time.

On the CapEx ratio, yes, I think it does look a little bit low in this half. We are seeing some increased activity in the second half. And we are, as you heard, reiterating our guiding of the $9 billion to $10 billion. So we are seeing some increased activity in half 2. And the majority of that will be in E&P International and on major development projects. And we're sort of starting spending in half 2 on Bacalhau. And there are various other increases across international that you'll see a little bit of a tick-up. And I think that probably answered that question. Yes.

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

Yes, absolutely.

Operator

The next question is from the line of Yoann Charenton of SG.

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

I will have two questions. So one is coming back on to this impact of gas forward sales. I'm looking for some more color on the actual cash flow impact. If we look at your cash flow statements in the past two quarters, we can see that you posted an unusually large move of about $750 million, which is showing basically the move in net derivative instruments. So I just want to know if there is any anything basically to draw from this amount as for the future cash impact of your gas forward sales, assuming that, of course, the forward curve remains steady versus the end of the second quarter?

The second question, coming back to one of the points you made about the upside distribution potential, you referred to a sustained trend that will basically be a trigger for more distribution. So how many quarters to make that sustained trend, please?

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

Thank you very much, Yoann. I will start on your question on the gas forward sale. And I'll start by saying MMP trading reflects a complex trading in multiple position. And there are many gains and losses on various positions here. The impact on the summer sales has partly been offset by gains in other positions and to isolate one in our derivatives results is very, very difficult. What I can say is that those specific positions will -- we expect those to continue to have a negative impact in the second half.

And the indication we're giving is that the MMP trading will be towards the bottom end or below normal guidance to give you a bit of sense of it. And this is also depending on volatility in the market. I should also note that the MMP trading has also been impacted by other factors, such as the low refinery margins and LNG sort of the shutdown of Hammerfest. So there's a few factors there that points us from a sizing point of view down towards the below or just at the bottom of the normal guidance.

On the upside on distribution and triggers and how many quarters, I think we've been very careful in a very volatile environment to not be too specific on this. This is a holistic assessment that the Board does. But I think it's important to also say that we have introduced some possibility for flexibility with our share buyback program.

We have consistently increased our base dividend over the last four quarters and we've added a share buyback program, so -- and we have committed to our long-term ambition to grow the annual dividend in line with underlying earnings. And generally, historically, the increases have taken place in Q4. And again, the Board of Directors will take all of those factors into account when they do the assessment as we go forward here and use the toolkit we now have to assess the right level.

Operator

The next question is from the line of Peter Low of Redburn.

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

The first is another one on gas price realizations. If I look at your average invoiced gas price in Europe, it has not increased as much sequentially, either your internal gas price or benchmark hubs like NBP and TTF. I thought the hedging impact was all taken in MMP, so it wouldn't come through here. Is there something else that means you haven't captured all the upside we see in spot gas prices?

And then the second question is just on the operating and admin expense in E&PN. You talk about them being stable in the presentation. But it actually looks like they've increased a bit quarter-on-quarter despite lower production and it's what might have expected from FX alone. Are there any other moving parts there you can flag?

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

Thank you very much, Peter, for your questions. In terms of your second question, I'll start there. There is -- I mean, FX is the big driver. We've seen the exchange go from NOK 10 to down to NOK 8.6 or something like that at the moment. And that is, by far, the biggest movement in it. We have seen stable costs and a real cost focus on the rest of the portfolio. So I wouldn't highlight any other section there. And your first question was around -- remind me on the specifics of it?

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

Yes. It was on your reported average invoiced gas price in Europe, which I thought was affected -- yes, the actual price we're realizing in the EP&N haven't increased as much as we might have expected, given kind of what spot prices have done.

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

So our -- I think our adjusted prices increased mainly due to higher prices. But they are also slightly offset by other -- by a few other factors. I'm going to hand over to Svein to share with you a few of those.

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

It's a blend, and as the invoice prices has been impacted of the total gas realization price that we are doing, both in the total curve that we are selling, including the positions. So on the internal price, what you typically do there, you have the coverage for cost. But then also you pay on a basket then, which is then fixed 70% on a day ahead and around 30% then a month ahead. And when these are developing and when we have some position, there could be some deviation coming out there. But we're also now seeing that the prices are also then increasing in line with the curves as they are moving upwards.

Operator

The next question is from the line of Anders Holte of Kepler Cheuvreux.

Anders Torgrim Holte - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Actually, most of my questions have been asked. But I do have one that I would like to pick your brain on, Ulrica. And I guess, when we look at the strong cash flow the last couple of quarters from oil and gas division, obviously we're all seeing the price movements for renewables, especially in listed equities, over the past six to seven months.

And you point to -- you want to have a more stable trend before. Do you think that there will be any more dividends coming as I interpret you? But is kind of M&A higher up on your list of priorities? Or is that something still that you will view a bit further down the wish list in terms of how you distribute the excess cash that you're now seeing?

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

Yes. We were -- it was only a month ago, we looked at the -- we shared with you what our overall strategy was looking like. And we are basically completely in line with that. We did -- in terms of cash, how we use it, we were -- there were sort of -- in theory, there are four main options for that CapEx. And there, we provided guidance on expected level of CapEx spending. It's a very full portfolio. It's very -- of very advantageous projects. On M&A, we did state that our future was based on organic activities. Some opportunities, if they arise, but basically our ambitions and guidance was based on organic activities.

We will continue to take an opportunistic approach. But that's completely in line with what we said before. And also, I should point out that, that opportunistic approach could see us as net sellers in the M&A space. And then of course, as you say, we've got the reduction of debt, where we're at the bottom of the range at the moment, and then return to shareholders. But that's how M&A sits in the overall portfolio.

Operator

(Operator Instructions) And the next question comes from the line of Martijn Rats from Morgan Stanley.

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

I wanted to ask you two. They're somewhat unrelated. First of all, I just wanted to ask what your response was to the EU Fit-for-55 program that was announced. I mean, it's an enormously broad set of measures. And then I was wondering if there was something in there that was specific to

Equinor perhaps that drew your attention? And secondly, yes, look, I guess, the answer is no but just to tick this one off. Any signs of any inflationary pressures in the upstream?

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

Yes. Thank you, two great questions. So the EU Fit-for-55 question first. Well, the first part of the Fit for 55 package was presented in July. And it included few elements of priority for Equinor, which is the revision of EU emission trading system and the proposal for a carbon border adjustment mechanism, also the amendment that they did to the renewable energy directive and the regulation on reducing methane emissions in the energy sector. And I mean, it's difficult to give firm statements on any of these implications at this part because they all -- the second part of this will be presented in the fall. But we are clearly working to understand that and work that through. There's a long answer to that. I think we can talk about it separately, but those are the main sort of areas.

And on the unrelated outlook and signs of inflation. Well, yes, we are continuing to focus on costs very, very attentively. We're seeing several developments there. I think clearly, we are aware that global demand is picking up across categories. And as COVID-19 impact eases, and historically, this has increased risk of inflation, so we're very much watching this. It's a very good question. We see some mixed signals as well though, which reduces that risk recently on metals pricing. And we tend to focus on -- with supply with a healthy back order backlog and strong balance sheet. So we're best positioned to take advantage of the recovery, which might help.

Other few things we're seeing, we're seeing rig utilization. It's down from last quarter but flat rig rates. And we're seeing a clear trend towards renewable and low-carbon focus amongst suppliers. And I mean, another one to watch from a cost point of view, I guess, is the NCS tax package. And the packages had a positive trend rather than sort of a rush in a bottleneck. And we've seen positive activity on the NCS on the back of that.

And then finally, on steel and metal, I guess, I should mention as well that steel and metal -- steel prices have remained high due to strong demand and continued supplies constrained. And the price rally is, however, we sort of see expected to have reached its peak. So those are the few areas where we're sort of watching within. But it's an uncertain world. And what was history might not apply to the future, but that's what we're watching at the moment, Martijn.

Operator

The next question comes from the line of John Olaisen of ABG.

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

Welcome in your new position. My question is regarding the reporting for Renewables business. Due to the equity accounting principle, I would argue that we get limited insight into the increasingly important part of your business, the Renewables business. I just wonder, do you have any plans to provide us with some more details? It would be great to see some, call it, proportional figures on the like proportional revenue, EBITDA, not the least cash flow numbers, and also to get more insight into the financing situation, the debt structure of the Renewables business.

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

Thank you very much. And thank you, John. Yes, the Renewables business is -- what I can say is this is a business in rapid buildup. And as we mature multiple projects, we clearly expect value recognition to increase. And -- but in the near term, as you see, we've got fairly high development cost that will impact those earnings for some time to come. And it's going to take quite a long time for us to sort of really stabilize that business.

At this point in time, I'm not sure how much value there would be. There's not much trends to be taken out of them. Over time, of course, we will be looking at disclosures. There are some more on our website. And I'll refer you to those. But as this business matures, yes, we will be looking into disclosing more. But at this point in time, given the immaturity of it and the rapid buildup, this is where we will stay.

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

Yes, sure. I recognize that it's an early phase, but just building up the numbers, watching them over time will give us a better -- give a better position to evaluate these important CapEx numbers that you put into these figures over time. So it's more like a request from me, would be great at some time.

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

Yes, we will be watching them grow, too. And we are very much looking forward to that journey as well.

Operator

The next question is from the line of Christyan Malek of JPMorgan.

Christyan Fawzi Malek - *JPMorgan Chase & Co, Research Division - MD and Head of the EMEA Oil & Gas Equity Research*

It's Christyan Malek here. Yes, best of luck with the new role and congrats. Just two questions. One, sort of following on from Martijn on inflation but just flipping it to just Brazil, we've had some clearly a little execution issues holistically owing to what's been going on there with the coronavirus. I want to know whether you have any sort of line of sight now in terms of just improving around the supply chain, but you are also seeing inflation there and how confident you are in terms of sort of deliveries, particularly given some of the delays. So just more of your sort of top-down around Brazil would be very useful.

And second question comes back to the renewables business. And just wondering more kind of philosophically how you feel this business is being valued, whether it's being valued appropriately as within the conglomerate. And now you're in the new seat, are you comfortable with how the market views that business within your portfolio? Or do you think something needs to happen, whether it be to greater disclosure or potentially spin-off IPO? I'd love to get your initial thoughts on that.

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

Very good. It was very hard to hear that, unfortunately. So I'm a little bit unclear on your second question. I think the first one is more of an overall Brazil assessment and where we're at. I think I'll answer that sort of high level. And so since the beginning of the COVID pandemic in Brazil, we have put in place preventive and protective measures to safeguard our people and several of that go beyond the authorities. And we are sort of moving forward on that very, very well. And even though all strict measures have been put in place, it's not prevented us from having some issues there, but I think we are monitoring and continuing those safeguards around Brazil. I don't know if there's anything else -- I'm looking around the table here, if you heard anything else around that.

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

Yes. If you look at the totality there, we're also then working then to get -- working with Peregrino, getting that up and running again. I expect then startup over new year on that one in the first half of '22. And then again, Peregrino Phase 2 will then come and we're working on that continuously. And on the Bacalhau, which we recently have a final investment decision on that, that's also then going according to our plans there. And we communicated around that one as you also might remember at the Capital Markets Day with a breakeven for that one, for the Phase 1.

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

So Christyan, I hope we answered your question there.

Christyan Fawzi Malek - *JPMorgan Chase & Co, Research Division - MD and Head of the EMEA Oil & Gas Equity Research*

Yes. That's great. Yes, so I'll put my second question, hopefully it's clearer. I was just using my useless AirPods. So the second question is regarding sort of the Renewables business. And it's sort of maybe early days to ask you this, but how you view it being valued within your conglomerate. Clearly, disclosure will always improve. But how do you see it sort of as you sort of move into the seat?

Do you see it better placed through a sort of a carve-out? Or are you comfortable with it sitting within the portfolio? Just your initial thoughts on just how you think Renewables business is being appropriately valued, given sort of, to some extent, the question whether investors are really going to turn up for kind of hybrid status in the current market?

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

Thank you, Christyan. Yes, I mean, in terms of appropriately valued, I mean, it's interesting to see the value of these businesses develop -- the pure businesses develop outside of Equinor, having such strong values and then sort of tapering off a little bit. I think it's a difficult market to value. There's clearly an opportunity here that everybody can see. And the track record of what actually it takes to succeed in that market is clearly not that explored.

I think, that sort of means that I think we're going to see some values going up and down, depending on very small pieces of new information as we move forward. And that will go for pure companies as well as companies like Equinor. I do -- the reason we're in the Renewables segment is because we believe Equinor has got some very crucial capabilities that really helps us to be a leader in this transition, which helps us to drive this Renewables business forward. And that's our strategy and that's how we will position ourselves in this business going forward as part of our overall strategy.

Operator

The next question is from the line of Nash Cui of Barclays.

Naisheng Cui - *Barclays Bank PLC, Research Division - Research Analyst*

Congratulations for the new role. Two questions, if I may. The first one is during your presentation, it's interesting that you said share buybacks could be used more extensively. So just wonder if cash returns will be higher? Will a higher level of share buybacks be a priority over a dividend increase? So that's my first question. And my second question is do you expect Equinor's production to decline materially in the long run in order to meet net zero target? If yes, when do you expect production to plateau?

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

Well, thank you for those questions, Nash. I'll come back to the -- on the capital distribution. I mean, we -- there is no expectation at this point in time. I've shared with you what the sort of parameters are that we will work around to assess the situation as to how much level of capital distribution we will -- the Board will decide on. I will say that Equinor is very committed to long-term shareholder value. And capital distribution is an important part of what we want to drive for and give shareholders back in the future. So taking all those factors into account, we did introduce a new flexibility part of the dividend. I think we need to look at it as a whole.

There is a core dividend that we've said we're going to grow in line with earnings. And then we've got a more flexible side when we see the factors I've shared with you around oil prices, the net debt target ratio and supportive commodity prices, that we can then use when we see it's appropriate to hand back more. But those are the two forms we will be using. On production -- longer-term production, I mean, we've clearly been indicating that our guiding stays where it is. But in the very long term, I'll hand over to Svein to give some more color on that.

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

Yes. What we then said also on the Capital Markets Day, having given the guiding for the '21, but we also said the portfolio outlook up to '26 is the same, as we said earlier, 3% growth. And then the 2030 production is then expected then to be around the same level as we saw in 2020. So we are working with our advantaged portfolio with a breakeven below $35 for the projects then coming on stream up until 2030, generating a significant cash flow in that perspective.

Operator

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

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

I'd like to ask you John Olaisen's question once more, just trying to word it differently because renewables and low-carbon solution is an important part of Equinor's future. And as we've been touched upon, it's being reported as associated companies. The operational and financial exposure is currently very poor. So instead of asking whether you will view changes to that reporting, will you be an advocate of making such changes to provide more transparency in this business segment, which you rightfully spent a lot of time on addressing in connection with the Capital Markets Day a month ago?

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

It's a good question. I mean, clearly, it's an important sort of assessment of our business going forward and it's a difficult area we're in as it's growing and we're building the business. And yes, we have had some thoughts around this. And I'm going to hand over to Ørjan to share some of those thoughts.

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

No, it's just a reminder that when we had the significant investment in Lundin, then we had a separate disclosure that gave exactly what you are looking for. And that is something that we assess going forward as well as we build up this portfolio. But we take note of the request and the information that we get.

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

Yes, absolutely.

Operator

The next question is from the line of James Hubbard of Deutsche Bank.

James Richard Hubbard - *Deutsche Bank AG, Research Division - Research Analyst*

Just one question. So we had the ruling against Shell in The Hague in May brought by various environmental groups. And obviously, that, for now, is a one-off ruling and they're appealing and who knows what will become of it. But it does seem likely that such cases will proliferate across Europe and perhaps to Norway. And I'm wondering how do you feel about your strategy as it is, which basically involves oil production growth over the next handful of years and, as you just mentioned, flat over the decade.

So Scope 3 flat, no matter what happens to Scope 1 and 2, Scope 3 possibly up because you're going to become a little bit more oil-biased. How do you -- when you see a court case like that and you think about potential proliferation, how do you feel about your strategy now in the context of maybe a few years from now a similar ruling being brought against yourselves?

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

Thank you very much. Yes, it's a big ruling. I will say -- what I can say is this is that we don't like to speculate whether the likelihood for Equinor to be engaged in something like that has increased or decreased. What I will say is or will note is that we are seeing some differences in the legal situation in Norway. And our strategy going forward, and your question about the implication of that, we are very clear that we want to be a leader in the energy transition, which I think is fully in line with what we need to be and how we need to drive forward in being a strong leader and driving the transition as we outlaid it in the Capital Markets Day.

James Richard Hubbard - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. Sorry, could I just ask a follow-on? I mean, the -- I understand you want to be a strong leader, but people can just look at your oil production profile and your gas production profile and conclude that, at a Scope 3 level, your emissions are going to be rising. So I mean, do you think that qualifies as leadership in the sector?

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

Well, we are taking -- we are moving -- our ambitions were fast-tracked and accelerated, and we have -- what we had before, we're accelerating. We continue to look at how fast we can move in this transition. And at this point in time, we've assessed a strategy that is quite ambitious, and we've got real actions to get to it. And that's what we need to continue to strive for and a strategy we can get to.

Operator

The next question is from the line of Jon Rigby of UBS.

Jonathon Rigby - *UBS Investment Bank, Research Division - MD, Head of Oil Research and Lead Analyst*

And I've got two questions for you, small ones, I think, not sort of big picture that we've mainly focused on. The first is if I look at your gas results -- gas trading results in MMP, the U.S. actually looks pretty good. And I'm aware that there's been some infrastructure issues and so on in the U.S. this year and particularly in the second quarter. So I just wondered whether there's anything unusual going on in the U.S. around your sort of infrastructure position and production positions that helped you this quarter.

And then the second is just on the balance sheet. You were very cash-generative in the quarter, and you seem to have squirreled most of the way into financial investments. And I just wondered whether that's just a timing difference or whether there's a sort of strategy around liquidity and positioning of where you want to see sort of cash balances versus gross net debt as your net debt overall begins to fall.

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

Very good. Thank you for those, Jon. On the U.S., yes, the U.S. gas looks good in the MMP segment. That's the right observation as it tends to get overshadowed by the other factors. But I'll let Svein comment on some of the details on the back of that.

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

Yes. Also in U.S. then, what we are doing then, we have a transfer price between then the E&P U.S. and MMP. So MMP buys it at local liquid hubs there. And we have seen that on those one, the prices have not developed in a similar way as the Henry Hub has developed. But since we then have infrastructure and ability to take it out of the area, we are able also to generate an extra profit, then as U.S. gas then coming up with a decent profit, as we said, Jon, in the second quarter here. So it also shows the value of then having the value chain focus there on totality and the positions that we have had earlier, taking pipeline capacity both to the East Coast in Manhattan as well as up to Toronto, which we are now gaining on as a company.

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

And on your cash position question, Jon, yes, you're right, there's a buildup of cash, especially looking, as you say, across financial investment and cash and cash equivalents. They must be seen together. They do reflect the overall liquidity of the group, which, of course, you might recall, we built up in times of uncertainty. And there were many ways of doing that. And this is what we did. And so that's there is to it.

We take that into account, net debt, it's clearly where we counted in. So we have indicated the range that we're happy from a long-term point of view, which is the 15% to 30%. This is just part of the same conversation, as I've had now, which is we need to take that liquidity profile into consideration in the net debt and with other factors and then assess how much capital we keep in the business versus hand back or spend on the basis of those three factors that I shared before.

Operator

And there are no more questions at this time. I would like to hand back to Mr. Peter Hutton for any closing comments.

Peter Hutton - *Equinor ASA - SVP of IR*

Okay. Thank you. Well, actually, I just like to thank Ulrica. Do you have any closing comments, Ulrica, that you want to pass?

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

No, thank you all. Thank you all. It's great to meet you. I'm sure we'll meet, as I said upfront, hopefully a little bit more face-to-face at some point in time. It's been a good quarter. I think it's important to recognize that, yes, there's been strong prices, but I think it's important to sort of highlight that Equinor has taken advantage of those with strong production and holding the cost pressure where it needs to be. It's a volatile market going forward still. It looks a bit stable.

We keep that in our mind. And there's some very good question around volatility in cost that we need to sort of take into account with these strong results, which will give us an interesting next half to get through. to understand what the world looks like. But I'm hoping we've shared with you today that we're setting Equinor up the best we can to capture whatever opportunity there is and in a resilient way to capture if there should be any downside. So with that, Peter, I think that's...

Peter Hutton - *Equinor ASA - SVP of IR*

Perfect way to end it. Thank you very much, everybody, for joining us. We really appreciate it. I know there's more results to come from some of our peers for the rest of the week, so I wish you luck with those. And of course, any further questions, please don't hesitate to contact us in Investor Relations. With that, thanks to everybody who participated on the call and all the best. 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.