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PRESENTATION

Operator

Thank you for standing by, and welcome to the Equinor Q3 2023 Analyst Call. (Operator Instructions) And finally, I would like to advise all participants that this call is being recorded. Thank you. I'd now like to welcome, Bård Glad Pedersen, Senior Vice President of Investor Relations to begin the conference. Bård. Over to you.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, operator, and good morning to everybody on this call. As the operator said, my name is Bård Glad Pedersen, and I am heading up Investor Relations in Equinor. I'm here together with our CFO, Torgrim Reitan, he will take us through the results before we start the Q&A session, and we will try to keep this within 1 hour in total.

So with that, I give the word to you, Torgrim.

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

So thank you, Bård, and good morning, everyone, and thank you for joining us. Today, we delivered strong results in our quarter with lower prices than the extraordinary levels we saw last year.

We have strong adjusted earnings of $8 billion and $2.7 billion after tax. Our net operating income came in at $7.5 billion and net income was $2.5 billion. Year-to-date, we have a strong cash flow from operations after tax of $17 billion. This corresponds well to what we said at our Capital Markets Day in February, when we expected to deliver, on average, $20 billion annually all the way to 2030. We are on track with our delivery this year.

European gas prices are significantly lower than last year. Storages are now for all practical purposes full, and this is as expected. However, the gas market is tight, and it is still very sensitive. We have seen price spikes related to possible strikes in Australia, the terrorist attack on Israel and the situation with the Baltic pipeline. This winter, prices will again depend on weather, gas demand recovery in Europe, competition for LNG from Asia and any supply disruptions. We believe volatility will continue into the winter and for the coming years.

During the quarter, we have seen strengthening liquids prices. And we captured these higher prices through increased liquids production across our portfolio. Our NCS gas production, however, is down due to planned maintenance but also due to unplanned extended turnarounds. And I will come back to production later in my presentation. We had strong liquid sales and trading that drove our MMP results above the increased guidance for the quarter.

This fall, we have passed significant milestones and I'm proud of the hard work and collaboration of our colleagues who make this happen. In early October, we saw first power at Dogger Bank, the world's largest offshore wind farm. When fully complete, its 3.6 gigawatt capacity with 277 turbines will produce enough energy to power the equivalent of 6 million British homes. This is a large and profitable project with inflation-adjusted offtake contracts that support value creation.

So we see progress, but the offshore wind industry is also experiencing challenges with inflation, higher interest rates and supply chain bottlenecks. Our petition to New York for price adjustment of projects on the U.S. East Coast was denied, together with similar petitions from many other developers.

Contrary to in the U.K. and Poland, off-take contracts here or in the U.S. are not inflation-adjusted. So based on this, we have taken an impairment on the U.S. East Coast projects. We are now assessing the impact of New York's decision and we are working closely with the state as they further develop their 10-point action plan to expand and support the renewable industry.

Last night, New York advanced and expedited renewable energy procurement process, as they call it, as part of the 10-point plan. We welcome this. But it is important for me to say that our project, they must be financially robust to proceed. More broadly, we remain confident that offshore wind will be important for the energy transition and that we can be a leader in this industry.

Our strategy to profitably grow in renewables remains firm. We have a strong portfolio within offshore wind, but also within onshore renewables, where we have accessed attractive opportunities when prices for offshore wind have been too high. For example, our bolt-on acquisitions of BeGreen in Denmark, Wento in Poland and Rio Energy in Brazil.

Energy security remains very important. We have mature projects with high value and low emissions. And just last week, we brought Breidablikk on stream, on costs and 4 months ahead of schedule. At plateau, Breidablikk is expected to send 55,000 to 60,000 barrels per day to the market. This is a subsea tie-back to the Grane platform in the North Sea. And it is a good example of our use of existing infrastructure, generating production with low cost and low emissions. The field is expected to be paid off in less than 2 years.

We also received a PDO approval for our Snøhvit future projects, which will electrify our Hammerfest LNG plant and significantly reduce emissions by 850,000 tonnes per year. And last, but not least, in the quarter, we reached a final investment decision and got approval for Rosebank in the U.K., a significant project for our international portfolio.

We continue with strong capital distribution, in line with what we communicated at our Capital Markets update. For the quarter, the Board approved an ordinary cash dividend of $0.30 per share as well as continuing the extraordinary dividend of $0.60 per share for a total of $0.90 in cash dividend. We continue our share buyback program. The fourth and final tranche will be $1.67 billion, in line with the program for 2023 of total $6 billion. For this year, we are delivering a total capital distribution of around $17 billion.

Then turning to safety. In August, there was a fatality of a crew member who fell overboard on an LPG tanker in Malaysia. The vessel was in operation for Equinor and the tragic incident is affecting everyone involved. So this is a strong reminder that even with a positive safety trend, we must keep focusing on safety in all our activities. Safety will remain our top priority.

In the quarter, we produced 2,007,000 barrels of oil and gas per day. And as you see on the slide, this is essentially more oil but less gas than in the third quarter last year. Our liquids production increased 12% compared to this quarter last year, driven by Johan Sverdrup in Norway with the increased production capacity, Peregrino in Brazil, the partner-operated Vito field in the U.S. Gulf of Mexico and the addition of Buzzard in the U.K.

Our NCS gas production, however, is down 16% this quarter, driven by planned maintenance, but also unplanned extended turnarounds on Troll A, and the Nyhamna gas processing plant. They're all back in normal production now, but the impact for the quarter was around 60,000 barrels per day. And we had a similar impact last quarter of around 70,000 barrels per day. Therefore, we have adjusted our guidance for production growth from around 3% to around 1.5% in 2023.

Power production for the quarter ended at 883 gigawatt hours, 373 of this is from our renewable assets, slightly higher than last year, driven by onshore renewables in Poland and Hywind Tampen being fully operational. Gas to power production was 510 gigawatt hours from our Triton Power plant, which is lower than in second quarter.

So let's now turn to our financial results. The prices for both oil and gas are lower than last year. Our realized gas price is down around 75%, 75%, and even more in the U.S. actually. Adjusted earnings in E&P Norway totaled $6.1 billion before tax, driven primarily by strong liquids production. Our E&P International delivered $809 million and our U.S. business posted adjusted earnings of $343 million. Both segments driven by higher liquid production, high realized liquids prices. Adjusted earnings after tax from our combined international segments was more than $900 million.

In our marketing and midstream segment, our adjusted earnings came in above our increased guidance with $876 million. This was driven by strong liquid sales and trading due to our ability to capture opportunities in inefficient and our strong performance from our LNG and shipping activities.

Our renewables business post negative results as we continue to invest in new projects and business developments.

We see operating costs coming down with 2% from second quarter, from last quarter but costs have increased over several quarters. So we will continue with strong cost management and capital discipline. We have net impairments in the quarter of $971 million. This includes impairments for a field in the North Sea and the Mongstad refinery and the reversal for a field in the Gulf of Mexico. The impairment of our U.S. East Coast offshore wind project is $300 million. Here, we now have a remaining book value totaling around $300 million, $100 millions in the projects and around $200 million related to real estate in New York and cables.

Our total exposure also includes additional commitments related to infrastructure and contracts with suppliers. But you should also remember, we entered these U.S. East Coast projects early, and we paid less than $200 million on a 100% basis. Related, divested 50% and we booked a gain of $1 billion.

In the quarter, cash flow from operations was $11.3 billion and $7.6 billion after tax. We have paid one tax installment of around $3.7 billion and capital distribution of $3.1 billion. Next quarter, we are paying two NCS tax installments of around $3.75 billion each, and one additional tax payment of $1 billion due to increased commodity prices. After tax, capital distribution and capital expenditures, our net cash flow was positive $1.5 billion.

For the full year, we expect to have negative net cash flow, as discussed at CMU. And with higher tax payments next quarter, we expect negative net cash flow in the fourth quarter. So far, we have negative $5 billion for the year, and this is in line with our expectation.

We have a robust financial position with cash, cash equivalents and financial investments of $40.2 billion and the net debt to capital employed ratio of negative 22.9%. This includes tax normalization to even out taxes across the third and fourth quarter. And without that, the net debt ratio would have been around negative 30%.

So let us conclude with our guiding. As stated last quarter, we saw a higher downside risk to our production guidance. Due to the unplanned production losses in the third quarter, we adjust our guidance to around 1.5% production growth in 2023. Organic CapEx is, so far, this year, $7.2 billion. We maintain our guiding of $10 billion to $11 billion for the year, and we expect to be in the lower end of this range. We will, as usual, revert to longer-term CapEx guidance at our Capital Markets update in February.

So with that, I will hand it over back to you, Bård, and I do look forward to your questions. So thank you very much.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Torgrim. And we are then ready to start the Q&A session. So operator, if you can remind of the instructions for that.

QUESTIONS AND ANSWERS

Operator

Thank you, Bård. (Operator Instructions) And your first question comes from the line of Biraj Borkhataria from Royal Bank of Canada.

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

I wanted to circle back on the U.S. wind position. So you've taken the impairment today. Last night, there was some news from the New York State around a request for consultations. So it seems like we're making an effort to expedite some of these things and push this thing forward. Where does this leave Equinor and Empire Wind? You obviously took the decision to impair because you couldn't negotiate the PPA, but I'm just wondering what the next steps are from here.

And then the second one is on Norwegian output. Arguably, you've had more than your fair share of unplanned outages this year. When you do your some audits and analysis, is there a common theme here in terms of the issues? Or all of these project specific? And how can investors get some comfort around your ability to produce reliably going forward given the issues this year?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thank you very much, Biraj. So on your first question on U.S. wind, yes. So -- I mean, the petition towards the state, it was rejected. And that was the basis for the impairments that we have done. And right after we received that rejection, the state came out with a 10-point action plan for opportunities to rebid on our contracts.

So -- and then as you say, last night, they came out with sort of how they want to run this process where they would like feedback from us next week on process, and then we'll see where that leads us.

So first of all, we -- clearly, we welcome that they push forward the action plan quickly and what they are doing now. I do find that as a signal of commitment and a willingness to fast forward a process.

For us, it's too early to conclude. But what I want to say is that for us to move forward with these projects, we need to see profitability that is sort of reflecting the risk at hand. So we will continue to work closely with the state as sort of the process unfold, and we will be more than happy to share more details when we know more naturally.

On your second question on the Norwegian output. So let me first go through the different sort of incidents or things that happened. We had Melkøya, during the summer with a gas leakage, an incident that sort of halted production from Snøhvit during summer and also into the third quarter. We had Nyhamna, which is a processing plant operated by Shell, where the turnaround was prolonged. And that sort of led to that we need to hold back production from Aasta Hansteen, which we operate, but also Ormen Lange operated by Shell needed to hold back in production due to the prolonged turnaround Nyhamna. And the third one is on Troll A, which was due to a turnaround. But as we were starting that up, we discovered some welding issues on some of the work. So we needed to revisit that, and that sort of delayed the start-up of Troll with 13 days as such.

My point is that these three events are not interconnected in any way. They are separate incidents. And all of these are plants of high integrity and high quality. And it's not going to -- I mean, we are confident that this will have no long-term impact as such. In general terms, I would say that the standard and quality of our facilities is very high and demonstrated by high production efficiency.

I think on -- when we talk about production output next year and following year, let me give you a couple of data points. You have seen Breidablikk coming on stream recently. So that is sort of adding production next year, also Vito in the Gulf of Mexico. Then Johan Castberg is sort of a big new startup next year. That is planned to come towards the end of 2024. So it will have a limited impact on the full year. But in the last quarter, we expect that to have a good impact. We are also have a start-up of Kristin South phase 1 with some volumes as such. But please remember, there is an underlying decline in the portfolio that we need to be aware of as well.

And then in 2025, we have Bacalhau phase 1 as a significant start-up. And also, there's a lineup of NCS assets that are coming with a good production output as such. So -- I mean, it's a solid portfolio with profitable assets coming on board. And what we have seen this year, we don't see that having a long-term impact on the ability to produce. So thanks, Biraj.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Torgrim, and thank you, Biraj, for your question. The next question will be Giacomo Romeo from Jefferies.

Giacomo Romeo - *Jefferies LLC, Research Division - Equity Analyst*

First question I have is on Dogger Bank. You announced first power in October. However, we noticed that only 4 turbines have been installed out of the 94 since the end of August. Just wondering what -- when do you expect to reach full power capacity, if we could have some clarity there, if possible?

Just second question is you had the good contribution in MMP from crude products and liquids again, this quarter. Obviously, we normally talk about your gas and power trading business, but crude has -- and products have been -- has done very well and pretty consistently. Is anything else changed here in the way you sort of look at the optimization and trade around liquids? Some color there would be great.

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thank you very much, Giacomo. So first, on Dogger Bank. Yes, first power, very glad to see that. So this is sort of being installed. There are many turbines, and we expect sort of full power next year, in third quarter, as such for Dogger Bank A, really looking forward to that. And as you know, Dogger Bank projects are looking good from a profitability perspective. In the U.K., the contract for differences are adjusted for inflation, and with sort of the inflation seen in the U.K. over the last years, that has contributed well to a very attractive assets.

On your second question on MMP, yes. So -- I mean, MMP continues to deliver strongly, and this quarter above the increased guidance that we gave at the Capital Markets Day. And I also think it's worth noting that natural gas, which was sort of the big contributor last year, is still contributing solidly, but they are not the one doing sort of the heavy lifting in this result. That is the liquids trading as such.

So this comes out of arbitrage opportunities resulting from that global trading flows are changing due to Russian oil being delivered into Asia. So we see that creates opportunities when you have a good and large shipping fleet, combined with the qualities that we produce around the globe. So I'm very glad to see that we have been able to really take out the value opportunities that arise in the changing oil market as such.

So going forward, you should -- it's very hard to predict naturally who is going to be the biggest contributor from quarter-to-quarter. But as long as there are arbitrage opportunities within the oil market, we'll take them. And the gas results, they will typically be driven by volatility in the market and arbitrage opportunities between the various geographical markets as well. Those have been fairly muted in the third quarter but they have been very, very large earlier on. So when that changes, we are ready to take and then create more value from that project.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you and thank you, Giacomo, for your question. The next one is Oswald Clint from Bernstein.

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

Yes, I wanted to also ask about MMP in the $400 million to $800 million a quarter guidance that was increased at the start of the year. Obviously, beating it this quarter is normally less exciting for natural gas. You just discussed the liquid side. But I remember the chart back in February had quite a lot more upside from optionality and optimization, that fuzzy blue bar was significantly higher. So -- I mean, the question is, as we roll into next year, is there any confidence building, I guess, internally that you can probably do more than this guidance or at least more than the lower end of that guidance range? That's the first one.

And then secondly, yes, I had a follow-up. I wanted to know if you could tell us more about the Linnorm field in offshore NCS. It seems like it's a sizable one and may be moving forward. So just your latest discussions in the consortium around the concept and whether we could see this moving forward, please?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thanks, Oswald. Yes. So MMP continues to deliver strongly. And I think it's fair to say that -- I mean, we have confidence in that we will be able to continue to deliver strong results from that segment.

Going into next year, clearly, volatility will be important to monitor. And we have seen, in particular, with a lot of volatility in the market, we can make our balance sheet available to take risk and make significant profit. And we saw that in 2022 and from Danske Commodities and from the gas trading as well. So yes, we are confident that we will be able to deliver good value.

So on Linnorm, it is not operated by ourselves. This is operated by Shell. So it will be natural to confer with them on the specifics. But clearly, this is -- it is a gas and condensate field, and it is an asset that we like and support and we stand fully behind Shell in sort of the way forward on that asset.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you. And the next question is Teodor Sveen-Nilsen from Sparebank 1 Markets.

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

Congrats on strong results. Two questions. First on Sverdrup. The field is currently producing very well. Just when should we expect the current level also next year? Also noticed also that the lifting or loading has declined substantially over the past few weeks. Should we read anything out of that when it comes to fourth quarter production from Sverdrup?

Second question is on NCS gas and, of course, there has been a lot of maintenance there in past few months, which has reduced production. Just wonder, could you discuss whether we should relate this to the very high production last year that some of the maintenance was skipped and that is the reason why we see low production this year? Or is that totally unrelated from last year's strong gas production?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thanks, Teodor. So on Johan Sverdrup, very glad to see how Johan Sverdrup is performing with high production efficiency, and we will continue to produce at high levels. But of course, with the increased capacity, we will also sort of come off plateau at some point in time. It is expected to be coming off plateau in 2024 and 2025 as such. But as you know, we are actively working with the reservoir and getting to understand it better and optimizing it on a daily basis.

We are also working on Johan Sverdrup phase 3, which will be a subsea development with two templates typically and eight wells that we will try to tie or we will tie into the platform. And the purpose of that development is, of course, to maintain a high level of production on Johan Sverdrup continuously. On sort of lifting and not -- you shouldn't put much to that. I mean, production is stable last weeks on Johan Sverdrup.

On your second question, Teodor, on the gas production, and whether the production issues we have seen this year is related to last year's high production, and the answer to that is unrelated. So there's no sort of link back to that.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Teodor. The next question is Alastair Syme from Citi.

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

Torgrim, can you talk about just back on the renewables about your supply chain commitments. I think I remember you saying that on Empire Wind 1, there was already quite a lot of contracting in place around turbine suppliers and maybe a boat, but there doesn't seem to be much remaining book value. So I was just wondering how we square that up? Or are we seeing break clauses or something in there?

And then just secondly, I'm interested to hear what you're seeing in the recent gas demand data in recent weeks. We can all see the aggregate data but I'm sure you've got a lot more on what different customer groups are doing. So I'd be really interested to hear that.

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thanks, Alastair. So on renewables and supply chain commitment, so let me talk to the situation in the U.S. So the impairment that we have done is $300 million. As I said, we have now still $100 million in booked value in sort of the two assets. And in addition to that, we have $200 million booked related to real estate in New York and some equipment which is, in reality, cables.

Beyond that, we have commitments that is not sort of booked, but we still have them. They are mainly related to lease arrangement to a property in Brooklyn as such, which is a lease that -- and the property, that can be used for the purposes. And we have also contracts related to ships and turbines, which are typically can be used other places in the portfolio as well. But -- I mean, it's too early to give specific numbers on those, but that is sort of the exposure as such.

We have -- yes. So in addition to that, we have a termination fee to the current offtake contracts, which is at $16 million as such. So I think that gives sort of the totality of the exposure at hand. And again, sort of we are welcoming the process that the New York State is starting. And we will work closely with them to see what sort of opportunities that can arise out of that. So thanks, Alastair.

On gas demand, yes. I mean, storages are for practical purposes full for the time being. But clearly, we see very tight markets and a rather nervous market where sort of small -- not small, but where happenings have typically a significant impact on oil prices. We have seen it on the terrorist attack on Israel, we have seen it on the pipeline, the Baltic pipeline, and we see quite a bit of volatility in the prompt particularly. So I think we just need to be prepared for a rather volatile and tight situation through this winter. Weather will, of course, always be a significant thing and as well demand from Asia.

Demand is sort of -- I mean, in -- demand from industrial customers are not really coming back to prewar levels, but it is still sort of a healthy demand also from the industrial segments as I see it.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you. Next one is Henri Patricot from UBS.

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

Two questions, please. The first one, I want to ask about M&A. We've seen quite a bit of consolidation in the U.S. upstream lately and we're seeing challenges in renewables. So I was wondering whether these recent developments are changing, in a way, your potential appetite for M&A and then your focus in terms of where you're likely to make acquisitions in the future in terms of regions but also between upstream and renewables?

And then secondly, I wanted to ask about the CapEx. So you mentioned that you see CapEx for this year more in the lower end of the guidance range. Can you expand on what's driving CapEx towards the lower end for this year? And whether you see risk a bit to downside as well for the next few years? Or if there is just inflationary pressure and at least maybe more to the upside?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Thanks, Henri. So first on M&A, yes. So -- I mean the two large acquisitions in the U.S., clearly, send some signals to the market, one that is that sort of oil and gas with -- to be attractive for a long period as such. And also, I think there is an element of energy security importance as well that is sort of driving that.

So I don't think it's unlikely that we will see more transactions of also bigger size going forward. But this time, it is a little bit different than last time around. Last time around, it was driven by a low price environment and cost synergies and efficiency. This is not a driver this time around, the different drivers. So I think what this will lead to is more uncertain this time around. So we will have to follow that closely.

But we have -- when we talk our portfolio as such, I mean, it is a strong portfolio within oil and gas already. I mean, we are growing towards 2026 and we will keep the same level all the way to 2030. And we have an average breakeven of $35 per barrel and internal rate of return on 30% of these projects. So this is a good investment program going forward.

When that is said, I mean, we are using M&A actively as a tool. And you have seen it last year. We have made an acquisition into oil and gasthe Suncor portfolio in the U.K. And you have seen several acquisitions within the renewable space as well, Rio Energy, BeGreen in Denmark. So we will continue to use M&A actively to focus and deepen our oil and gas activities and to support the energy transition and building a new portfolio.

So -- I mean, we will do that. And then it is very important for me to say that capital discipline is front and center when doing M&A, timing is of essence and quality is of essence.

Your second question on CapEx. So the reason for that we will come towards the lower end of the guiding this year is phasing of projects. So these are spending that typically will move on to later years.

When it comes to -- from 2024 and onwards, we are in the midst of our planning season. We are prioritizing among a set of very attractive investment opportunities. There is competition for funds. So we are in the midst of doing that. I think it's fair to say that we will continue to demonstrate capital discipline. And then, of course, we note that there is inflationary pressure in the portfolio, which is particularly linked to the non-sanctioned part of the portfolio. But we are managing this well, and we will come back to this on the Capital Markets Day in February.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you. Next question is Kim Fustier from HSBC.

Kim Anne-Laure Fustier - *HSBC, Research Division - Head of European Oil & Gas Research*

My first question is on low carbon solutions. I think you recently bought a 25% stake in Chevron's Bayou Bend CCS project on the U.S. Gulf Coast. Could you just talk about the development time line and about what Equinor is bringing to a consortium?

And secondly, it seems that there's some controversy from environmental groups in Norway with respect to new NCS developments, including Breidablikk and Yggdrasil. Could you comment on the operating environment in Norway? Could things maybe become more difficult going forward if these environmental groups gain more traction?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thank you, Kim. So you're right, we made an acquisition into Bayou Bend in Texas. That's a car -- carbon CCS project and storage. Chevron is operator, and we now sit on 25% on that lease. So this is a reservoir of very high quality and with potentially significant capacity to store CO2. I mean, benefiting from the IRA, the regulation. So we are enthusiastic about that opportunity.

We typically bring quite a bit of experience when it comes to reservoir management and understanding of capacities and how to do this. And we have a long experience working together with Chevron in the Gulf of Mexico, also particularly working on the reservoir topics together with them. So we see that as a [clearly]. And then we shouldn't forget that we have more than 30 years of experience on CCS from the Norwegian continental shelf through our experience on Sleipner and also on some other fields as well.

On the -- your second question on the sentiment in Norway for future development. Yes, it is -- clearly, there is opposition in Norway as well as in other places. I would say there is a politically, a very strong and good consent and collaboration across political landscape to support the development of the Norwegian continental shelf. So I feel confident that this is an area where investing into oil and gas is giving a predictable and a stable environment as such.

And then there will always be institutions and voices that are against what we do and we need to treat that with respect and openness. And clearly, we are in dialogue with everyone as such. So I don't find it to be any particular concerns in Norway compared to other places.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you. Next question is Peter Low from Redburn.

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

A question on the balance sheet. It remains firmly net cash. You've talked in the past about wanting to return to that 15% to 30% leverage ratio, and perhaps distributions being something that will kind of get you there. As we begin to think about 2024 shareholder distributions, can you give us any insight on kind of how quickly you'd like to get back to that leverage range?

And then the second one was just very quickly, you mentioned the impairment you taking the NCS due to, I think, an asset having kind of a lower reserve estimate than previously and then also reversal of an impairment in the U.S. Are you able to name those assets and, say, what led to that change in assessment?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thanks, Peter. So on your first question on the balance sheet and capital distribution going forward. Yes, we are in a situation where we have a negative net debt of minus 22.9%. And we have a sort of a long-term guiding, which is sort of 15% to 30% net debt, which is sort of mathematically what is solidly supporting a strong single A category credit rating on a stand-alone basis. We have a higher rating than that currently. So that's -- you should read that as sort of a range that we will sort of find as a more optimal capital structure of the company. And from time to time, we are above and then also below as such. So that is sort of a long-term aspiration.

We are, and I have said earlier, that capital distribution is something that we are using currently to distribute cash that we have on the balance sheet to drive a more efficient capital structure of the company. And I've also said that we will continue to use that as one of our tools to achieve that going forward. It is, of course, nothing that I can go into any details on in this call. But clearly, we will come back to that in our fourth quarter call and capital markets update.

On your next -- or your second question, Peter, NCS impairment. Yes, that is Martin Linge. It is an asset that we took over from Total many years ago, and we have had issues with that asset repeatedly as well. So this time around, it is related to the reservoir, where we see that the production is postponed to come towards later in the production life of the field, meaning that the discounted value of the asset is going down. So that's Martin Linge. This is not a broad concern at all on the NCS. This is isolated to this asset

Yes. And then you -- we talked about the reversal in the U.S., that is related to an asset on -- in Gulf of Mexico, $290 million. So thanks, Peter.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Peter. And Anders Rosenlund from SEB is the next question.

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

It feels like repeating almost the first or the previous question, but I'd like to revert to the overcapitalization situation, and the path you're pursuing is not remedying the situation. So what's the natural consequence of that? Is that more aggressive dividendand buybacks? Or are you happy with the development that you're seeing?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Yes. So, yes, Anders, thanks. Yes, all said, I think it's important for me to reflect upon the volatility and uncertainty that we are facing as an industry. In 2020, we had the weakest result in history for Equinor. In 2022, we had the highest and strongest results. So within 2 years, we went to worst to best as such, and that is the volatility and exposure that we need to manage, meaning that we will have to and we shall run with a solid balance sheet to be able to weather any storms that is ahead of us.

And then we are, of course, in an extraordinary situation now where capital distribution, it gives room for additional capital distribution, as you have seen this year. And then we said again, we will continue to use capital distribution as one of the tools to bring this back to a more efficient capital structure. So, yes. So -- but we'll speak much more to this in our Capital Markets Day in February. So looking forward to see you then.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Anders. Next one is Michele Della Vigna from Goldman Sachs.

Michele Della Vigna - *Goldman Sachs Group, Inc., Research Division - Head of Natural Resources Research & MD*

And congratulations again on the strong delivery this quarter. My question really is about the security of your Norwegian pipeline infrastructure. We've seen issues in Sweden, in Finland, Estonia. Was just wondering, over the last couple of years, what has changed in terms of the focus on guaranteeing the security of those pipelines and that would make you comfortable that such an issue would not take place on the Norwegian continental shelf?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Thanks, Michele. It's a very, very important question. So thank you very much. Clearly, this is front and center for us these days. After the terrible attack on Ukraine, we are seen as the most important energy company in Europe. And clearly, we will do our utmost to serve Europe with natural gas and other energy sources as well.

We have increased the security levels on all our installations and infrastructure on the shelf, and we have taken many measures. As you would understand, we have a very good dialogue with security institutions and safety and also -- yes, international organizations -- so to understand. And we have a lot of support from those institutions and also from -- support from military organizations as well.

What we have done over the last year is that we have mapped all our pipelines. We have screen them with sort of underwater equipment to -- all of them, and we are monitoring closely the situation. So this is front and center and top attention to the company. And we are doing everything we can together with Norwegian and international authorities to safeguard energy deliveries to Europe.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Michele. Next is Henry Tarr from Berenberg.

Henry Michael Tarr - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Two, please. One is just on the -- to come back again to the offshore wind and the RFP process, et cetera. I guess, as you've said, you're looking at the opportunities going forward and that you need an economic return on those. Would it be right then to look at the request you put in for the uplift and think that that's the kind of level that you're going to want to see to get an economic return on those assets on Beacon and Empire?

And then the second question is just on the cost inflation you're seeing on the portfolio on the non-sanctioned assets. Is there a difference? Are there any hotspots particularly, either in Norway or outside that we should watch?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Thank you very much, Henry. So offshore wind, yes. So very important for me to again say that, for us, to move forward with these projects. We need to have -- they need to be profitable and the returns need to match the risk that we are facing.

It is too early to conclude but we put forward requests in the petition, and that clearly illustrates changes that needs to happen. I mean, we have communicated that we would like to see 4% to 8% real unlevered return from our businesses in -- within renewables, and that still is the case.

On cost inflation -- and that is the way I understood your question, that is more general, not only related to renewables. So I would say that across the supplier base, it is still a challenge. We see that within the raw materials in the situation is easing driven by sort of global growth, actually, it is easing, but we see a continued tightening in the supplier market. That is driven by energy prices but also the activity level.

And if I should go into more on your hotspots, let me pick a few on rigs. We see that as a challenging environment. 50% of the fleet has been scrapped since 2015 and no or hardly any new builds as such. NCS will be strained. But as you have seen, we have taken on capacity with the Cosl rigs. So we are in a good shape there.

Then if we talk about engineering and construction, we see, short term, high utilization in yards in Norway. That is probably going to last a couple of more years until sort of the wave of new projects on NCS has come in production, internationally, driven very much by LNG newbuilds and FPSOs as such. So, we see a tight situation there as well, but there are opportunities. There are opportunities. Yes.

Then clearly, across the whole universe of electrification and cables going into renewable and offshore wind, but also the electrification projects we have on the Norwegian continental shelf, we see tightness and limitations. So -- I mean, it is -- all of this is pointing to a rather tight situation across the supplier base and we see that sort of filtering into inflation in sort of the numbers that we are looking at. But as a big company as we are and a big procurer, we have a priority and we will be able to get access to what we will need. So thanks, Henry.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you. We are fast approaching the hour, but let's try to cover 1 or 2 more. Chris Kuplent, Bank of America.

Christopher Kuplent - *BofA Securities, Research Division - Head of European Energy Equity Research*

I hope you can hear me okay. I'll try and keep it brief with only one, Torgrim. I know it's an unfair question and I look forward to February already. But I wanted to just see whether you would like to comment on the fact that you seem to be the only "American" in Europe when it comes to how you define shareholder distributions, i.e., in billion dollars rather than in a payout ratio. Do you feel consciously aware of that in the way you are thinking around how you're going to update us in February? And I'm not asking for a number or anything, just about the principle of guiding for future shareholder distributions through the cycle.

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Thanks, Chris. I think it's -- I think it will be wrong for me to be specific here at all, but I can give you maybe one thing to reflect upon and that is in our cash flow, we typically have so many specialties related to Norwegian tax, with delayed payments and all of that. So that is sort of always a disturbing factor if you're going to think about as such. But we have what we have currently, and we hit $17 billion this year. And we will come back to this on Capital Markets Day in February.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you. Then we'll do the final question, and that will be you, Paul Redman from BNP Paribas.

Paul Redman - *BNP Paribas Exane, Research Division - Research Analyst*

Last but not least, I hope, everyone. Just one quick one. If the agreements with the New York government do not go in a positive direction, and Equinor did step away from the offshore wind portfolio, what could we expect to see at that point? Would we expect to see challenge on the longer-term gigawatt target? Would CapEx come down? Or when you look at the renewable portfolio, do you have other assets, which are high return potentially, fill the slot that the wind portfolio essentially cannot meet?

Torgrim Reitan - *Equinor ASA - Executive VP & CFO*

Okay. Thanks, Paul. So over the last few years, we haven't won new leases as such. I mean, we have used the opportunity to actually divest out of assets and capitalizing on our significant prices. And instead of sort of fighting for -- in these sort of lease rounds, we have actually built an onshore portfolio through acquisition of various platforms, both in Denmark, Brazil and Poland as such with quite a good pipeline of opportunities. So our target for 2030 remains firm. But what you might expect is that there will be, maybe a little bit shift of content between offshore and onshore in the delivery of that.

When it comes to sort of the U.S. project as such, I mean, they are part of our planning, and we are working closely with the New York State on the ongoing process as such. So -- I mean, we will come back to this later on when we know more about the process. We have not concluded yet and again, and that will probably be my final word. And the investments into U.S. wind will have to be profitable.

Bård Glad Pedersen - *Equinor ASA - SVP of IR*

Thank you, Torgrim. And let me remind you all that we are, of course, always available in the Investor Relations team. So if there is any follow-up after this call or any additional questions, please give us a call, and we will do our best. Then finally, thank you, all of you for calling in and for your questions during this hour. So thank you, and goodbye.

Operator

This concludes today's conference call. Enjoy the rest of your day. You may now disconnect.
