REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EQNR.OL - Q3 2021 Equinor ASA Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2021 / 9:30AM GMT

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

Ørjan Kvelvane *Equinor ASA - SVP of Accounting*

Peter Hutton *Equinor ASA - SVP of IR*

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

Ulrica Fearn *Equinor ASA - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

Michele Della Vigna *Goldman Sachs Group, Inc., Research Division - Co-Head of European Equity Research & MD*

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

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

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

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

Andre Klotz *Jefferies - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome, and thank you for joining the Equinor 3Q results 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*

Thank you. And indeed, very much welcome to the Equinor 3Q results call. Thank you for the participation. We're joined today by Ulrica Fearn, CFO, who will run through a presentation of our results, and then we'll open up for questions, which we hope to complete within the hour. Also on the call, we have Svein Skeie, Head of Performance and Risk; Ørjan Kvelvane, who is Head of Accounting; and Mads Holm, Head of Tax and Treasury. With that, I pass immediately over to Ulrica. Thank you.

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

Thank you, Peter, and thank you all for joining the call today. Today, we present our strongest financial results since 2012. Clearly, these results benefit from higher prices, particularly European gas prices but they also reflect our ability to capture those prices through our solid operational

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

performance with high production efficiency, our flexible gas capabilities, which gives us potential to optimize volumes and our continued focus on costs.

We delivered very strong cash flow from operations of over $10 billion dollars in the quarter before tax and over $9 billion after tax, reflecting the normal phasing with only 1 tax payment on the NCS in the third quarter. Along with strict capital discipline, this further strengthens our balance sheet, makes us more robust for any future volatility and allows us to continue to invest in the energy transition. It also allows us to increase our capital distribution, and I'll get back to that shortly.

We are seeing significant moves in the energy markets and particularly in the gas market in Europe. Record prices in the second quarter were beaten in the third quarter and prices have continued to rise in October. This generates higher revenues for Equinor, but also serves as a reminder of the level of volatility in our markets. We are experiencing a tight gas market. At present, European inventories are low, and we expect the market to remain tight and subject to volatility going into the winter.

The tightness of the energy market affects European industry and households, and Equinor remains committed to be a stable and reliable supplier of gas to Europe. Therefore, we are now flexing to produce as much as we can and turning every valve to produce and export more gas to meet European demand. Earlier this autumn, we received permission to produce 2 billion cubic meters of additional natural gas from Troll and Oseberg. And I can also mention that Gina Krog, we have in October decided to redirect gas from normal injection to be able to increase exports over the next 6 months by about 30,000 barrels per day oil equivalent.

This is an extraordinary measure resulting from the collaboration of partners and authorities. We started production from Troll Phase 3. And as I witnessed myself when visiting the platform this month, the production of Troll A has fully ramped up again after the startup. It's worth reminding you of its profitability, a breakeven below $10. While this is only limited impact on near-term production, it improves resilience and its real value is over the longer term, with recoverable reserves of almost 350 billion cubic meters of gas extending to deliveries to Europe beyond 2050.

We continue to make progress on our ambition to reach net zero by 2050 as outlined in our Capital Markets Day. We passed an important milestone for low carbon value chain when the East Coast cluster in the Humber region was selected as one of the two first carbon capture usage and storage project in the U.K. This is the area where Equinor has its largest portfolio of projects for blue hydrogen and low-carbon gas power to be realized with CCS. We further introduced the concept of our Norway energy hub, an industrial plan for the energy transition in Norway. This sets out how by working across industries and supply chains, we can industrialize offshore wins, make carbon capture and storage profitable and scale hydrogen production. It further shows how we can mature the solutions for the future using a base of existing capabilities and technologies.

The Board has decided on cash dividend of $0.18 per share. At our Capital Markets Day in June, we introduced a share buyback program, which provides more flexibility for capital distribution to shareholders. Our first tranche will sit at $300 million and completed in the quarter. Based on the strong commodity prices, strong cash flow generation, a strong net debt ratio, the Board has decided to increase the size of the second tranche of the share buyback program from the indicated level of $300 million to $1 billion, including the government shares.

At the CMU, we highlighted the cash returns of $0.18 per share in cash dividend and $0.09 per share from the share buyback. This took us to $0.27 per share level with April 2020. With this increase in the share buyback, the return to shareholders increases in the quarter to $0.30 per share from the buyback, which in addition to the dividend of $0.18, takes us up to $0.48 per share for the third quarter. This is over 75% higher than the pre-COVID levels of $0.27 and shows the advantage of the flexibility in the capital distribution process and ability to return cash to shareholders.

For the last 12 months, we reported serious incident frequency of 0.4 and a total recordable injury frequency of 2.5 per million working hours. We are not satisfied with this, and work to systematically find -- we work systematically to find root causes while working with our suppliers and partners to strengthen our joint safety culture.

Turning to our financial results. Adjusted earnings totaled $9.8 billion, up from $780 million same quarter last year. The IFRS net operating income was $9.6 billion, and the IFRS net income, $1.4 billion. We see strong results across all our business areas in the quarter.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

From our Norwegian upstream business, the higher prices, solid production efficiency and continued cost focus resulted in the highest contribution to net operating income since 2012. Our midstream and marketing segment, MMP, post results far above our normal guidance. This is mainly due to the mark-to-market developments on our derivatives. Equinor's gas sales are mostly spot based, but relatively small proportion of our volumes are based on longer dated indices. Equinor uses derivatives to change its price exposure towards spot and front month pricing to obtain and match that over the rest of the portfolio. We don't report any realized gains or losses on the underlying gas volumes until the period when they are physically delivered. However, any mark-to-market gains or losses on derivatives are reported every quarter. This is part of normal accounting.

The recent scale of movement in the gas markets make these unrealized gains of derivatives associated with future gas deliveries significant. At current market prices, you should expect these gains to be approximately matched to the loss on physical deliveries in MMP over the next 2 quarters. Excluding the effect of these gas derivatives, the results for MMP in the quarter would have been a little below the normal range of $250 million to $500 million, consistent with what we said in the second quarter call. Overall, this has allowed us to capture current European gas prices.

In the quarter, we had net reversals of impairments of around $500 million. The 2 largest factors being the reversal of impairment of almost $980 million on one of our assets on the Norwegian Continental Shelf, mainly due to increased short-term gas prices. This is partially offset by an impairment of a refinery of $480 million due to the expected increased CO2 costs going forward. The group tax rate in the quarter will be 71.6%. This was up from 66% last quarter and due to strong earnings on the Norwegian Continental Shelf where the uplift deduction has less effect with higher prices.

And now to more detailed comment on the earnings by segment. E&P Norway delivered another excellent quarter. We achieved high production efficiency and have optimized gas production supporting stable supply and capturing the higher prices. In the quarter, you will see an increase in reported costs in U.S. dollars which mainly reflects an increased noncash removal costs from Gassled of around $200 million as well as currency effects due to strengthened Norwegian kroner compared to the same period last year.

The underlying unit costs are stable. E&P International delivered solid cash flow and strong earnings of $556 million before tax. We have continued to optimize the optimization of the portfolio and announced -- as announced in the Capital Markets Day, and it is reflected by the reduction in reported exploration costs in the quarter as well as continued cost focus. E&P U.S. delivered production on par with the third quarter last year and adjusting for divestment in Bakken, this despite the effects of Hurricane Ida, which for Equinor had the highest impact of any hurricane in Gulf of Mexico and impacted production by over 20,000 barrels per day. By now, volumes have effectively come back to normal levels.

We also reaped the benefit of long-term improvement efforts and cost focus. These, in combination with higher prices, lower CapEx, continue to generate strong cash flow from our U.S. business of $477 million and solid earnings of $285 million after tax.

Our Midstream & Marketing segment delivered adjusted earnings of $2.2 billion before tax and $428 million after tax. As already mentioned, this record high result is largely due to the effect of mark-to-market gains on derivatives. But at current prices, this will be followed by a loss on physical deliveries in MMP in later quarters. Our strong sales of gas volumes and trading in North America also contributed to the results and account for 25% of MMP's earnings after tax.

Hammerfest LNG remains shut down with expected startup end of March. In the Renewables business, lower wind than seasonal average was partly offset by higher electricity prices and earnings from assets in production totaled $15 million. High activity levels on development contributes to a negative result of $28 million. As announced, we changed our policy of including gains and losses from sales in the adjusted earnings from the third quarter. This policy is now consistent with our other segments, where gains and losses from sales are included in the IFRS results but not in adjusted earnings.

We delivered solid operational performance with total production of 1,996,000 barrels of oil equivalent per day. Adjusting for the divestment of Bakken, production increased by around 3.5% compared to the third quarter last year. We optimize our gas production. And in addition to Troll Phase 3, it's worth mentioning that about half of the production from Martin Linge is gas transported through the Frigg pipeline to the U.K. Increased volumes from Johan Sverdrup adds to the production in the quarter.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

In the U.S., the production in the Gulf of Mexico is returning to normal after the impact of Hurricane Ida. We delivered a production of 304 gigawatt hours, down from about 319 in the same quarter last year. Our wind farm had good availability, but less wind than seasonal average impacted production. We are on track with maturing our renewables portfolio and developing projects.

For Empire Wind, we recently selected the preferred supplier of the 15 megawatt with wind turbines. These are turbines of size that 1 single rotation can meet the energy demand of households in New York for 1.5 days and further improve efficiency in cost for the project. In the U.K., we have started up the joint operation center for Sheringham Shoal and Dungeon, an important step in the effort to capture synergies and increase in the efficiency in the industry.

The cash flow from operations is very strong, with $10.8 billion in the quarter before tax and a total of $24 billion so far this year. Higher prices, solid operational performance and strict capital discipline contributed positively to the cash flow. In the quarter, we had 1 tax payment of -- for the Norwegian Continental Shelf of NOK 11.8 billion. With higher prices and solid results, we also updated the estimated tax payments for 2021.

In the fourth quarter, we will pay a total of NOK 55.5 billion. In total, we expect to pay more than NOK 130 billion in taxes related to 2021 on the Norwegian Continental Shelf. The net debt ratio is 13.2%, and it's adjusted for half our tax payments paid on the 1st of October, which increases the ratio by around 5 percentage points.

Let me briefly mention our guiding before we open for questions. We expect the production growth of around 2% for the current year, and we are approaching year-end, and we see that our CapEx will come in somewhat lower. We therefore adjust our expectations for the year to around $8 billion in 2021. The rest of the guiding remains firm, and we will revert to this at our next capital market update that will be on the 9th of February 2022. And with that, I hand back to you, Peter, and look forward to questions.

Peter Hutton - *Equinor ASA - SVP of IR*

Thanks, Ulrica, and I immediately pass over to the operator to open up for the polling.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from the line of Oswald Clint from Bernstein.

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

Two, please. The first one, just on natural gas and your business. The -- your invoice gas price in Europe was lower than the internal gas price, which is unusual. I know there's obviously a lot of stuff going on. So it's a little bit tricky to understand that perhaps you could explain that dynamic. Perhaps it's just a derivative. So what was happening to that in the quarter? And when might we expect that to revert to the mean and just get that margin that we're much more accustomed to coming through, please?

And then second was, I think there's obviously still some COVID impact here, scheduling delays, some cost pressures. I think you're still pointing to as still happening potentially project execution, cost risk still out there, but obviously unpredictable. I'm always cognizant of Equinor just announcing project delays and cost hikes with press releases. But Ulrica, I just want to get a sense, is there anything you're looking at or worrying about here as you think about that particular comment, please?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Thank you very much, Oswald. So let's start with the natural gas invoice price then. They are a little bit lower than the benchmark, because we did talk to you in the last quarter about some strategic positions we had outstanding that were weighing us down a little bit in the last 2 quarters. We are out of that now and what you're going to see is probably a move towards the more benchmark in the coming months.

On the COVID impact, yes, it has been impacting us, and it continues a little bit as well, and we have come out with the impact, but it's clearly moving in the right direction. What isn't moving in the right direction in general is, of course, the cost pressures in the supply chains in general, which we are watching very, very closely. And this is something we haven't really seen direct impact of just yet in the business, but we are very much paying attention to. And it is more the indirect supply constraints in some areas.

But as it stands at the moment, we are sort of quite confident in where we're at. But as I said, it feels like there is some outstanding risks that might be coming our way. Steel and metal prices are trading flat. They might actually be easing further going forward. And we do see sort of on the rigging side, we see high and stable rig utilization rates. And there is going to be increased demand on the actual supply chain and where that will pop up and if there's going to be any more bottlenecks we remain to watch and see.

Operator

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

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

Two please. The first one is on the enhancer on Gina Krog. Very interestingly, you're deciding to not re-inject the gas so you can sell more of it. A few questions on that. Are you looking to do that at other fields? And if so, could you talk about the potential incremental supply to the European gas market that come from activities like that? And then secondly, why did you decide to do that for a period of 6 months. Is that just the market needs it for the winter? Or is there something else that drives that decision?

And then the second question is on your CapEx guidance, which implies a reasonable step up into 2022. Just going back to the prior question, does that step-up reflect some contingency because of supply chain pressures or inflation, things like that? Or is that an activity-led increase?

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

Thank you very much, Biraj. And let's start on Gina Krog. We -- this is a very big step, and we are looking to see across the portfolio what we can do in different ways. And yes, we will be looking across and seeing whether there are similar things we can do elsewhere. But this is the one where we have really taken clear actions for now. Why 6 months? This is the start. We want to make sure we know how this works and we need to put this forward and is temporary for now, but we need to revisit the situation as we go along.

On our CapEx I mean I think there's a couple of things here. There are some delays from this year because as we've talked about before. And -- but we've also got some positive news. We have got many projects that have been -- incorporation across the different portfolios and the different parts of our business are coming in with better costs. So there is a combination of the delays and the better costs. So what we're looking at in the next year is mainly that -- sorry, rather than an update from inflation and then a contingency around inflation. But of course, we're going to continue to review all of that, as I said before.

Operator

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

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Congratulations on excellent results. Two questions from me, if I may. Ulrica, as you highlighted, you have a very strong cash flow now and you had lower net debt to capital employed than you previously reported. Going into next year, you probably will have net cash given the current oil price or the gas prices. So I just wonder, should we expect Equinor to be run at a net cash positive company going forward? That's my first question.

Second question is just on this technical effect around the hedging gains or hedging losses. So if I understand that some of the gains you booked in MMP for third quarter will be reversed. And just with regards to the timing, should we expect that to happen in Q4 or Q1? And also what the highs about potential losses to directly match the gains in the third quarter?

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

Thank you very much, Teodor. Let's start on the first question there on the net cash position, whether you could expect that. We have stated what our net debt ratio, long-term guidance is in the 15% to 30%, and that remains the case. We are where we are, and we are looking every quarter, as you know, around our sort of overall level of investments at our overall level of other uses of cash, but also our overall capital return to shareholders by looking at our 3 guiding lights that we have put out there at the Capital Markets Day. We are looking at our financial strength and the net debt ratio, the outlook on commodity prices, and we said 50 to 60, you would expect a 1.2 billion share buyback, and you're looking at the general economic environment. So we continue to live by those general guidelines, and we'll take every quarter when they come.

On the technical effect in MMP, yes, there is a big gain in the third quarter. As I mentioned, you can expect that to be reversed and that will be in quarter 4 and in quarter 1.

Operator

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

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

Two questions on my side. I just would like to come back on the tax installments that you explained, please, related to 2021 earnings. So you revised up the tax installment due to higher earnings than previously expected. Please, can you just confirm that you will pay around $8.8 billion tax in Norway in the first half of 2022? That I understand well. And should I then just consider that the tax installment is up from around $1.4 billion per year to something like $2.9 billion.

And the second question is about the law proposal regarding the change in Norwegian taxation. That was in the beginning of September since then the government has changed. But I just would like to know if this is voted. Is it fair to consider that the tax payment will come down the first year compared to if the new tax proposal is not voted. Because in my model, we have an $8 billion positive impact if that taxation, that taxation law is voted from 2022 to 2025. So just wanted to, if you can give us some color there.

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

And thank you very much for your question. A NOK 67 billion for half 1 '22, I can confirm at present prices, and that's in line with what we've been communicating before. On the tax question, I really don't like to speculate on what's going on -- I'll hand over for some further comments from -- to Svein.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

There is a proposal out there from -- that was proposed by the government. We are now in the phase of the hearing on that one, given them the feedback on it. The proposal as it is, is that there will be done direct expensing towards the special tax in the Norwegian Continental Shelf, six year for the ordinary tax there. So also some of the rules in the transition phase that were being looked to look at as it is. But then overall, more than related then to the direct expense against it currently. Of course, this needs also then to go to the parliament and expected then to be voted on during the first half of 2022. So that's the current status. So it's a hearing round which ongoing then.

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

But the principles there are very clear and we understand where they are and the impact. So thank you for your question.

Operator

Next question is from the line of Yoann Charenton from Societe Generale.

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

I will use this opportunity to ask again about the transition phase as of the -- basically as for the move to the new tax system, I understand that it's difficult for you to quantify at this stage. So I'm just willing to understand if you are happy to share with us some estimates of tax balances for undepreciated or basically for uplift, for CapEx that has yet to be offset against tax payments. And basically, what is the portion of this that sit outside of the temporary tax scheme if that is possible.

On the second question, which is more, let's say, a broader question with perspective on your capital allocation. It looks like the excess cash buildup is set to continue when looking at your balance sheet. And at the same time, you continue to underspend versus guidance in oil and gas. So I'm just wondering basically if this signal potential for higher distribution in the midterm? Or is that more, let's signal for increased flexibility for the investment in low-carbon solutions and renewable. That would be great if you could provide some color on this.

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

Very good. On the proposed tax system, I mean, what we're clear on is that we will get no benefit from the uplift in the overall tax rate will move toward overall 78% and but some more color on that, again, I'll hand over to Svein to give.

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

Yes. As it is working is that the proposal that might tend to be away the uplift part of it is that means the reported tax rate when we are full effect for it, then we go then towards 78%. But remember, there's also the temporary changes in the tax system, which we now have. That is relevant for 2020, 2021. But also for all our projects that has a final investment decision at prior then to end of 2022, meaning that if we deliver the plan development, and those will come under the temporary tax system, which are beneficial. So that means that tax rates will then be reported lower, it will have an impact on the cash taxes that we have more deductions upfront but following when all projects are then delivered under the temporary tax regime, the reported tax rate will go up towards then the 78%, but that's into the latter part of the decade. But the cash tax and the deferred tax will be different from what it was earlier, meaning more direct expensing early compared to what it was prior to the temporary tax regime.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

The direct expensing will help us in the short term. On the capital allocation, I'll come back to what I said before. We will continue using the guided sort of the, if you like, the methodology that we launched in June when we're looking at it, and I went through it before we will look at the net debt ratio. We would look at the outlook on commodity prices, and we will look at the general environment we're in, and we'll stick to that and we'll do that every quarter. And as such, we have now become accustomed to, and we will look at the overall situation in Q4 again, therefore.

Operator

Next question is from the line of Michele Della Vigna from Goldman Sachs.

Michele Della Vigna - *Goldman Sachs Group, Inc., Research Division - Co-Head of European Equity Research & MD*

I had 2 questions, if I may. The first 1 is related to your buyback and congratulations for tripling the pace of buybacks there. At this stage, you're buying back about 5% of outstanding shares. I was wondering when does this start to feed into your dividend policy, because clearly, reducing outstanding shares by 5% per annum could allow you to grow the dividend per annum faster than you probably would have previously assumed.

And then my second question, and sorry if it is a little bit too specific. When I think about your North America and offshore wind development, I was wondering if you're starting to see some issues in terms of tightness there. Not just on the equipment side, but more on the vessel side for construction. I believe there are some restrictions under the Jones Act, which could make it a bit more difficult to get the right vessels to do the installation there, especially as more projects will start to compete in the future.

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

Thank you very much for your question. And I'll start with North America wind development. We don't yet see any of this, but if you look a little bit comes back to the comment I made earlier, which is we don't yet see it, but that doesn't mean that there is some supply crunch out there, which we are all worrying and seeing, but we are seeing uneven deliveries and shortages coming up in areas or you can't quite predict and that's the same across the whole world. So we're -- and that also applies to the North America wind development. On the dividend and the share buyback conversation, we are not needing to directly consider that in the short term. And we will, as I said, take this on a quarter-by-quarter basis and cross that bridge if we get to that we are in a comfortable place where we are at the moment.

Operator

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

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

I just had a couple of questions on the mechanics of the buyback. So the first tranche has been completed, but only 100 million has been bought back with the remaining 200 million to be redeemed for the Norwegian government. How does that work? Is it a cash payment to them? And when will that be executed? And then as a follow up, for the next $1 billion tranche, presumably in the same fashion, you'll complete a fair bit in the market by the end of January, I think. But then again, when will the government portion be executed?

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

So yes, the 2/3 of it will be settled in that will be past the AGM in June -- so that's in June, July, and that's 200 million shares at the market price. And that will go for there. And that's around 9.5, and that goes for both this tranche and when we get to the next tranche.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator

Next question is from the line of Anders Holte from Kepler Cheauvreux.

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

I have 2 questions, if I may. First 1 is related to, not surprisingly, natural gas. And I know you canceled the Tanzania LNG quite a while back. I'm just curious to check with you if you are now seeing interest again from counterparties willing to sign longer long-term energy contracts. And if that is the case, does that facilitate a potential reopening of the Tanzania LNG project?

Second is offshore wind. I mean it's somewhat related to the first question, but I guess it's a little bit broader. It's just you did take down your expected future return for offshore wind during your last CMD in June. Now raw material prices have somewhat stabilized but still there seems to be quite a fierce competition on offshore wind as we see in the ScotWind round [copper]. I'm just curious to see if you are seeing a continuous margin pressure on offshore wind or if has eased off a little bit.

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

Thank you very much. And on your first question, I won't comment on that. That will be commenting on activity in the market that we normally don't comment on. On the offshore wind comment, I think we could say it's about the same where it was. And it's a tight market. There's a lot of activity going on, and I would probably characterize it as the same.

Operator

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

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

Quite a few things have already been asked, but I was actually quite interested in the impairments on the refinery of $500 million. It seems a sort of fairly chunky amount for such an asset. I was wondering if you could sort of walk us through with the, so the key moving parts and why this such a big number?

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

Yes, thank you, Martijn. On the refinery, we -- I mean, the driver of this is updated CO_2 prices and, of course, estimating that into the future and then taking that into the value of the asset is basically the 1 big driver on the back of that. And CO_2 projections internationally and in Norway are going up, and that's the straightforward answer.

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

And there is no sort of CapEx projects that you could do that would be less than $0.5 billion to sort of compensate for this. I take it, right?

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

We continuously look for strategies as the long-term sort of robustness and viability of all our assets.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator

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

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

I got questions regarding some of your offshore wind projects. You've mentioned the U.S. situation, but I also understand that the Empire Wind that you have applied to regulators to have a late start-up of the Empire Wind project. And also, you recently announced the Dungeon extension in a U.K. Sheringham Shoal are postponed or delayed. Could you explain a little bit more what's going on the 2 projects in particular, please? So what are the reasons for these delays, please?

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

So the Empire Wind is not really a delay. It's a combination of the project so that we can coordinate and get the synergies out of the projects rather than delaying it. So that's a benefit that we will reap the benefits of later on. On Dungeon, I'll hand over to Svein to give you a heads up on that.

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

No. No, things are progressing. We are looking into then also optimization then going forward there as we are moving along. So no big updates on this one but we are progressing. And progressing on the portfolio in the different parts of it to see how we have done and to mature it and build according to what we said at the Capital Market Day in June.

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

So there's no structural change in the project assume to try to optimize the synergies in the -- with Empire Wind initially as well. So it must be something that has changed. I mean, otherwise, the deadline is extended, I mean.

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

On Empire, it's about then as Ulrica said, looking at 1 common development for Empire 1 and 2.

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

Yes.

Operator

(Operator Instructions) Next question is from the line of Andre Klotz from Jefferies.

Andre Klotz - *Jefferies - Analyst*

A very small one for me actually. On the Kalundborg refinery sale, you mentioned Q4 closing. Any more details? Are we talking sort of now-ish, end of Q4? Any details would be very helpful.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Thank you. This is a short question and no more details on that, so thank you.

Operator

Next question is from the line of Lukas Hermann from Exane.

Unidentified Analyst

A couple of follow ups, if I might, just on comments you've already made. Just coming back to CapEx, you indicated that there are 2 features that have driven the reduction this year part with efficiencies and savings and part of it was delay. Do you mind quantifying the extent to which the benefit this year is savings? So we might get a better view perhaps on next year. And another follow up, just the carbon price you've used to determine the impairment and the refining business. And thirdly, a follow up, can you give us any indication as to how the MMP excess will spread over Q4 and Q1, i-e, 50-50, 60-40? Or is it impossible for you to say given where gas prices reside today.

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

Thank you very much. I'll start with the MMP question, and I'll hand over to Ørjan on the disclosure of the CO2 to price, and then I'll hand over to you, Svein. So I'll start with the MMP Q4, Q1. It's impossible to say. It's basically completely depend on the underlying market and where that moves. And of course, underlying delivery will be dependent on that. But also, the size and the direction of the derivatives will also move in accordance both in Q4 and Q1. So I would from the back up so start with you then Ørjan on the CO2 price assumption.

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

Yes. So we see on the refinery side, we see that we have increased in the CO2 price. So we assume around USD 58 per tonne in '22, and we move it upwards towards USD 100 a tonne. And this is 1 part of it, but we also see a decrease of CO2 quotas into the calculation, because that is also part of expectation to how the market will run for the refineries.

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

Yes. Regarding the CapEx there and the exact impact year-over-year that as Ulrica said, some delays but we're also seeing some positive contribution in the overall part of it. So it's a combination that we are seeing, and we're seeing it both in some in the Norwegian portfolio, but also, we are seeing impact in the international part of it. And then as we normally do, we will come back to further update on further outlook as capital market update in February on that front. So without going into exact details on that amount.

Unidentified Analyst

So you can't quantify the amount that you've realized from savings, how much of the reduction is about saving, how much of the reduction is just delayed?

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

It's a combination of those 2 as we are seeing good savings. For example, we have seen that on projects that have been put on stream on Snorre as we did. We did it on the Troll, but going into details on that one of the exact numbers that we are not giving.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator

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*

I just wanted to follow up on the question about the new Norwegian tax proposal. You've already answered the question on it, but it sort of strikes me after so many years of fiscal stability you know we saw a tax standards introduced last year and now this year. You seem to be going a bit the other way, given that the effective rate is going to go up over time. Can I just get a sense of your view about what do you think is behind the motivation from the government in making this change?

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

That is not -- what they have said is that -- we had the Norwegian tax system, we had a temporary tax system. There is -- there has been some debate on the valuation of the uplift where the government has used lower discount rates than the companies in a way. So that might be 1 of the reasons behind it and then being argued and then taking out the uplift and then having direct expenses as -- and that could be one of the reasons that they have used. But there are difference in how those are being valued with lower discount rates from the states and more higher discounts than for the company. So that has been one of the reasons I have used.

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

So suggesting simplification of the tax process? Can I say that -- is it true that you think the effective rate, if you sort of roll forward 5 to 10 years time to estimate effective rate is going to be higher than it would have been under the old system. Is that fair?

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

The reported rate will go up since you don't have then the effect of the uplift anymore on the special tax. But remember, cash-wise, you will have much more on the direct expensing towards the special tax. So cash-wise, you get -- when you get the direct expensing there, that is benefiting you on the cash flow and also then on a breakeven part of it. In sum, in nominal terms, there will be an increase and then we will then report to 78% tax rate if the proposal goes through. It's also fair to say, it's a proposal. It's out now in hearing, and it needs to be voted in the parliament. So that means that the reported tax rate is there -- and that means that you will then have the cash tax and the deferred tax, which will then change compared to how it traditionally was. More direct expensing, more deduction early for us as investors.

Operator

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 a follow up on an earlier question. How confident are you in fully unwinding the MMP gain over the next 2 quarters? Or is there a chance that it's only a partial unwinding over the next 2 quarters?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Thank you, Jason. And we'll say we're confident on this. This is a very sort of hedged position, and it's only a small -- the majority of it is completely matched with the underlying. So there's a small but very high confidence in the matching here.

Operator

Next questions from the line of Jon Rigby from UBS.

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

Can I ask -- you announced that -- or you highlighted the good news around the Humber projects and the low carbon initiatives you have around that zero carbon initiatives around about that. Can you just maybe sort of update when you expect to start real activity spending money, et cetera? And how will that be structured? Is it -- will it be a little like a traditional renewables project where you start to invest directly and get to critical mass and then maybe project financing or separately financed it? Or what's the sort of thought process around that? Because I'm, sort of, of the view that is quite a lot of capital, I guess, ultimately, that's going to go into that. If you can update me on that, that would be great.

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

Well, this is very early days. And in our sort of real activity, it's on its way. But I think it takes a long time to work on all of these developments. We need to develop new markets and we need understand the market risk and the technologies that we need to deploy here. So basically, a lot more work to do before we mature this project and can go in and be very, very specific on the outcomes on exact timing and the exact technologies and enablers. But it's very exciting for us. It's where we've got the most technologies is where we're building the biggest capabilities, and I think it's good for the company and for the U.K.

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

Would it be fair if I sort of took the U.K. government's aspiration, I think they put some 2030 numbers out there and sort of back up from there and sort of assume that probably by 2024-ish activity should be really starting to get into the swing? Is that fair?

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

I would just say it's really early days to give more detail guiding on the materiality of the portfolio in this area. All I can say it's an exciting project and it really establishes a foot for us here.

Operator

There are no further questions at this time, and I would like to hand back to Ulrica for any closing comments. Please go ahead.

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

Well, thank you all for all your great questions and for your time today, and we are looking forward to seeing you again next time will be the 9th of February, as I mentioned before, 2022 which is our full year results, but also our Capital Market Update. So, looking forward to speaking to you then, and thank you.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.