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PRESENTATION

Peter Hutton - *Equinor ASA - SVP of IR*

Ladies and gentlemen, thank you, everyone, and welcome to the Third Quarter 2020 Equinor Results Call. And what I know is an especially busy day. Lars Christian Bacher, CFO, will run through the results and then open up for questions. Also on the line, we have Sven Skeie, Head of Performance and from the first of November, Acting CFO; Ørjan Kvelvane, Head of Accounting; and Mads Holm, Head of Finance. (Operator Instructions)

So with that, I am very pleased to pass the word through to Lars Christian. Thanks very much.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Thank you, Peter, and good morning, everybody. I hope you are all doing well, and thank you for joining the call. Equinor delivered solid overall operational performance in the quarter. Prices have recovered somewhat from the very low levels in second quarter, and we have seen less volatility, but concerns of a second COVID wave in many countries have muted further demand and corresponding price optics.

Despite this challenging price environment, Equinor delivered a positive cash flow in the quarter. We acted early and forcefully to the effects of the pandemic and its impact on commodity prices. Now 6 months later, we see the benefits. We have materially reduced our costs and we have maintained strong financial flexibility. We were significantly helped by the strong measures taken over the last years to improve our competitiveness. This has made us more robust and equipped to handle this situation.

CapEx spending has been tightly controlled and strictly prioritized. Costs are significantly down with adjusted OpEx and SG&A per barrel for the upstream segments, down 20% since third quarter 2019. And we are on track on our plan to save $700 million in 2020. In the quarter, we have demonstrated that we are able to create value and grow our renewables business. We formed the strategic offshore wind partnership with BP in the U.S. and divested 50% of our East Coast offshore wind projects, Beacon Wind and Empire Wind.

Equinor continues as the operator of both projects and will now benefit from complementary competencies, experience and skill sets. This is fully in line with our strategy to secure our mature renewable projects for large-scale development and to capture the value creation by taking in strong partners when the timing is right. A net capital gain of around $1 billion is expected to be booked early next year.

We use a similar model for the Arkona project in Germany, where we booked a gain of more than $200 million in 2019. Equinor is making good progress in our low carbon projects, which will contribute towards the development of full value chains for capturing, transporting and storing CO2. This includes H2H Saltend in U.K., a project for large-scale hydrogen production with carbon capture. In addition, the Northern Lights project in Norway will contribute to the transport and storage of CO2 from industrial discharge points in Europe.

We continue to develop our competitive oil and gas portfolio. And in September, we submitted the PDO for the Breidablikk field in Norway. This is one of the largest undeveloped discoveries on the NCS and it will be developed as a subsea tieback to the Grane field with 23 wells from 4 subsea templates. Breidablikk is one of several projects that will benefit from the temporary changes to the tax regime on the NCS, with an average reduction in breakeven of $10 per barrel.

We have discovered hydrocarbons in the Cappahayden and Cambriol prospects of the East Coast of Canada, and they are currently being evaluated. Continued technology development and digitalization provides opportunities for increased value creation and risk reduction.

At Johan Sverdrup, which just celebrated its first year anniversary, digital solutions have yielded more than NOK 2 billion in additional earnings, and the field has achieved an unit production cost below $1 in the quarter, a UPC below $1 in the quarter. This quarter, after growing insights and maturing our market view through a deep analysis, we have reduced both our short- and long-term price assumptions. Our focus has been, as always, on the long-term and fundamental trends, not on short-term volatility and market reactions. Based on our analysis, including supply as well as demand impacts, we expect average oil prices to gradually increase to $65 per barrel in 2025 with a continued modest uptick towards 2030.

After 2030, we expect a gradual decline to $64 in 2040 and below $60 in 2050. Clearly, oil price estimates that far out in time are associated with great uncertainty. But remember, we require sanctioned projects to be robust at much lower prices than these long-term levels. At our capital markets update in February, we presented our project portfolio on new fields to be put in production by 2026, representing around 6 billion barrels of oil equivalents, net to Equinor with an average breakeven oil price below $35 per barrel.

Since February, this has been improved further. In April, with the unprecedented market conditions, we said when deciding on future dividend payments, the Board of Directors will take into consideration factors such as expected cash flow, capital expenditure plans, financing requirements and financial flexibility. We have seen some signals of recovery in the commodity market, we have also demonstrated an ability to react swiftly and effectively during the difficult conditions. And this gives the Board confidence to raise the dividend to [$0.11] (corrected by the company after the call) for third quarter. This confirms the statement made in April that the cut was a reaction to extraordinary conditions and that the dividend policy was unchanged.

Now on to the results, and let me start with our safety performance in the quarter. The safety of our people and conducting safe operations is the bedrock of what we do. The recent fire at our LNG plant at Melkoeya was serious, but most importantly, it was without any personnel injuries. The plant is expected to be shut in for up to 12 months for repairs. For the last 12 months, we report a serious incident frequency of 0.6 and a total recordable incident frequency of 2.3 per million hours worked.

Year-to-date, serious incidents is 0.5, and the total recordable incident frequency is improved when compared to the levels achieved in 2019. And now to the financial results, which again were impacted by lower prices. Our realized liquids price in the quarter was $38.3 per barrel, down 27% from the period -- from the same period last year. Average invoice gas prices of $2.72 per million BTU for Europe and $1.53 for North America, are down 48% and 23%, respectively.

The IFRS result is negative $2 billion, while adjusted earnings in the quarter is positive $780 million, down from $2.6 billion in the same period last year. We have further reduced our costs this quarter, and the unit production cost has been reduced by more than 20% year-on-year. We are also well on track to reduce our operating costs by $700 million as announced as part of our action plan in March.

Lower price assumptions and reduced reserve estimates for some fields result in a net impairment this quarter of $2.9 billion. Most of the net impairments are related to the U.S. onshore field Bakken and the Mariner field offshore U.K. In Norway, total net impairments are $360 million on producing fields.

The group tax rate in the quarter was 65%. A lower tax rate in Norway was offset by higher than guided rates in E&P International and MMP due to the earnings composition. Then some comments for each of the reporting segments. E&P Norway delivered adjusted earnings before tax of $773 million, underlying OpEx and SG&A was reduced by more than 25% per barrel year-on-year in Norwegian krone, through increased production from new fields with very low-cost and further efficiencies on mature fields.

Our new organizational unit focusing on improved value creation on late life fields on the NCS is off to a strong start with a visible cost improvements already. The tax rate in the quarter is lower than previously due to the temporary changes in the NCS petroleum tax regime. E&P International delivered adjusted earnings before tax of negative $104 million. The result is impacted by the low prices and reduced production from the Peregrino field in Brazil.

Peregrino is temporarily shut in for repairs and is expected to start production in the first quarter of 2021. We see strong progress on cost reductions in the segment with OpEx and SG&A down 19% year-on-year. Cash flow from operations is $381 million for the quarter. The tax rate of 84% is higher than normal guidance, mainly due to uplift on carryforward losses in the U.K. E&P USA third quarter results are, of course, also impacted by the weak prices.

Costs have been forcefully reduced, and we have stopped drilling onshore due to the current price environment. Adjusted earnings before tax came in at negative $193 million. Cash flow from operations was $276 million, with a positive contribution from our onshore business. Our U.S. business delivers a positive cash flow also after investments in the quarter.

Our MMP segment was impacted by weak refinery margins, offset by a strong contribution from European gas sales and trading. MMP delivered adjusted earnings before tax of $262 million. In our other segment, we also report activity in our new Energy Solutions business area, and we had good availability across our offshore wind portfolio in the quarter. Our equity accounted investments delivered a net income of $60 million in the quarter and the NES business segment as a whole delivered a positive contribution. We delivered stable field operations in the quarter without any negative COVID-19 effects. Equinor's total oil and gas equity production in the quarter was 1,994,000 barrels per day. Compared to third quarter last year, we grew our group equity production by 9% when allowing for portfolio changes and production curtailments.

We adhere to the production curtailments imposed by Norwegian authorities on NCS but we use this opportunity to perform modifications and upgrades without further production impact. New fields and new wells pit onstream contribute to the production growth. We also took the opportunity to increase our NCS gas production as the European gas prices recovered throughout the third quarter.

In the quarter, exploration activities resulted in 7 commercial discoveries but 2 wells results are still being evaluated. Year-to-date, we have delivered 13 value-creating discoveries globally. This is a strong 50% success rate. Our renewable electricity production in the quarter has been in line with expectations. In the third quarter, we delivered a net positive cash flow of $216 million. This is after capital distribution, which in third quarter included a payment of around $1 billion for the Norwegian state's portion of the share buyback program. We received a tax payment of $160 million in the quarter, reflecting the temporary changes in the NCS tax regime in addition to the low prices assumed. And the tax installments for 2020 were first estimated in June.

Based on increased prices for the second half, we expect taxes payable in the second half of 2020 at around NOK 2 billion. Year-to-date, we have had organic investments of almost $6 billion, and we are on track to deliver on the full year $8.5 billion organic CapEx guiding for 2020. The net debt ratio at the end of the quarter was 31.6%, up from 29.3%. 1.3 percentage points is due to the impairments, while 1.5 percentage points is due to the share buyback program payment to the Norwegian state. Without these, the net debt ratio would have been slightly reduced in the quarter.

So let me conclude with our guiding. For 2020, we expect the production growth between 1.5% and 2%. This outlook depends on how European gas market develops, where we use our gas production flexibility to boost value creation. The production impact from the strike on the NCS was marginal, and we expect a full recovery of the volumes by year-end. The impact from maintenance in 2020 is expected to be around 30,000 barrels per day. We expect around 3% compound annual growth rate in equity production from 2019 to 2026. We also maintain our expected exploration expenditure level for the year of around $1.1 billion. The guided organic CapEx levels for 2020 and 2021 are unchanged at around $8.5 billion and $10 billion, respectively.

And then to the closing. As you are aware, this will be my last analyst call as CFO of Equinor, and I would like to pass on my thanks to all of you for the engagement and the dialogue we have had over the last few years. It has always been a pleasure, and I know you will be in very safe hands when Svein takes on the role as acting CFO. And by that, Peter, I'll pass the word back to you as you open up for questions. Thank you very much.

Peter Hutton - *Equinor ASA - SVP of IR*

Thank you, Lars Christian. And I also sort of pass the thanks that I've had from a number of people to you as well. I take this opportunity to do that. Many thanks. And with that, can I pass the word through to Evelyna, the operator, to run you through how you may poll for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a question from Oswald Clint from Bernstein.

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

Yes, so thank you very much, Lars Christian as well for all your help. Just to keep it to 1 question and 1 follow-up. Gas business, the European gas business, price is down substantially, but the natural gas Europe result was particularly strong. And the volumes were up. And I actually see that Oseberg was pretty much pumping at winter levels, even in the third quarter when it's normally the lowest level each year. So -- and I know you have quotas around that particular field. So I just wonder if gas prices stay high here in the fourth quarter, can you still take advantage of those? Or are there -- could there be some restrictions against that?

And then my follow -- small related follow-up is, do you have any business interruption insurance for the Hammerfest issues?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Thank you. To the last part of your question, the answer is yes. And to the first part of your question, the answer is yes. If the prices -- gas prices in the fourth quarter is good and hopefully even better than we have capacity both from production point of view, but also from a quota point of view to take advantage of that situation to create superior value. And then just sort of an additional remark from me and that is that when it comes to production curtailments, those quotas have been imposed for the liquid-rich assets and not gas-producing fields like the Troll, for example.

Operator

Our next question comes from the line of Alwyn Thomas from Exane BNP Paribas.

Alwyn Thomas - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Lars, sorry to see you leaving Equinor. Just one main question for me then. On the dividend and the increase at this point. I was just going to ask, really, what gives you the confidence to increase it at this time, given what is a pretty uncertain macro outlook at the moment. Is this partly due to the tax incentives in Norway that will help?

And perhaps if I could sort of follow-on the question and say, what should we infer from this for the company's free cash flow generation going forward? And does it indicate that you think gearing has potentially peaked at the end of that quarter?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Thank you for the question. I think the best way to your first part is actually to go back then to March, April, when we were really impacted by the drop in the commodity prices, huge uncertainty in many dimensions. One being, of course, the world didn't really know whether we were able to secure flow assurance, meaning that you were able to sell the products. We were not alone in that. A lot of companies had that challenge. We took some extra positions to secure transportation capacity and storage capacity to weather that off. We have benefited from that since then. We have also taken many measures to reduce our spending and secure sort of the cash flow generation capacity. And we have good progress on the $3 billion program, of which $700 million is in the area of expenses, costs, that is. So that adds to it. And then with a positive cash flow in the quarter of $260 million dollars after tax, after capital spending and after a capital distribution of $1.3 billion, we feel that the discussion in the Board was such that now we have more visibility and confidence on a forward going basis. So that's why we increased the dividend by $0.02 per share.

So yes, and the second part of that question was?

Alwyn Thomas - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Sorry, yes, just one -- that just sort of sum up.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

On the cash flow? On the cash flow?

Alwyn Thomas - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Yes, that's it. And gearing.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

On the cash flow, I mean, the gearing for this quarter, if you adjust for the impairments and the $1 billion in share buyback, then the gearing would have been slightly down. And I think as a CFO, and this is my last call and looking at what we've been able to deliver and be contributing then together with the rest of the organization over the last 2-odd years, I think that the cash flow positive number for this quarter, given sort of the commodity prices, given everything, I feel that is a strong sort of position to be in, quite resilient. And also, if you look at unit production cost level, a reduction of 20% and so on, that's why we are quite sort of confident that this increase in the dividend is okay without me guiding of what the cash flow will be for coming quarters. But I think that's how far I'm willing to push it. So -- and I'm going to warn you guys, too, because I said to both -- early on Mads and Svein that since this is my last analyst call, I'm going to hand more questions to them than I normally do. So -- yes. But so far, yes, I'm hanging in there, yes.

Operator

Our next question comes from the line of Lydia Rainforth from Barclays.

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

So I was just thinking about the sort of the -- you talked about ethanol being very resilient. And yes, there have been things that operationally haven't seemed to have worked quite well. So it seems like the (inaudible) Peregrino being down or (inaudible) side. So just as you think about sort of leaving Equinor, where do you think you're leaving in terms of operational performance? And how much more is there really to go for in terms of getting the operational side completely right? And partly linked to that on focus, on the new energy business, you talked about Dogger Bank in the press release about reversal of losses there, helping the earning contrition. I'm just wondering sort of what that's related to?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Could you repeat that part of the question, please, about the Dogger Bank, Lydia?

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

I think just in the press release, you did talk about Dogger Bank, the part of the earnings performance in the new energies related to Dogger Bank or reversal of losses at Dogger Bank. And I was just wondering what that related to, just from an operational perspective?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes. Okay, very good. Now on the operational side of it, I mean, Peregrino, the change of the risers, replacing them is taking way longer time than what we expected, and that is due to the COVID, corona situation in Brazil. Brazil is a country that is being more severely hit than many others. So that is why that is dragging out. On the Snøhvit, that fire, we are investigating it together with Norwegian Safety Authority and the Norwegian police. So there are 3 investigations ongoing on this one. So I'm sure we're going to jointly get a good -- really good picture on what's happened and what have you to avoid this from happening again. And the reason for this to be put out for up to 12 months.

And the reason why we're kind of a little bit soft on and not very firm on how long is that we used saltwater to both pull out the fire -- put out the fire and also cool down their adjacent equipment. So we used the standby vessels actually to do this. And of course, saltwater into a plant like this and all electrical wiring and such, takes time to get a good overview of what needs to be done and what needs to be replaced. Other than that, I would argue that we have very good operational performance in the quarter. And I'm a strong believer in continuous improvement with all the small ideas. And in this case, I would like to address more of the -- I mentioned the smaller sort of incremental improvements because that's where we really can get sort of the further improvement in this area. So wide set of ideas that comes up from the organization is just after 30 years and working offshore 7 of the mind. I'm still immensely impressed by the ideas that comes up.

Everything related to sort of digitalization and operating from onshore centers, all that contributes to -- on top of this. So I'm a strong believer that there is still more to come, some incrementals and some more of a step up. On the Dogger question, this current quarter result was materially impacted by the revenues of losses in the Dogger Bank project. These were partially offset by lower income from other equity accounted investments than including the effect of reduced ownership share in Arkona wind farm compared to the 2019. I'm not sure, Ørjan, if you want to add to this or?

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

I can add a couple of comments to that. So we have provided a loan to Dogger Bank in the early phase. And that is treated as part of the net investment. But when we then move on, and we have another setup, then we reversed kind of the cost booked towards this net investment. So it's fairly technical. This is part of the $60 million from the equity accounted investment in the new energy solution.

Operator

Our next question comes from the line of Yoann Charenton from Societe Generale.

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

First, thanks, Lars Christian, for your engagement with the sales side. And second, if I may, turning back to dividend. And also, the company delivered free cash flow in the third quarter. This morning, (inaudible) regardless of the renewed COVID-19 stress. And so while you indicated the 4 factors that are taken into account by the Board to decide on dividend levels, where does the Board play the line of sight? That's the key question mark.

And I will add in relation to this, how much of the renewed COVID-19 spreading to the 3Q decision for dividend?

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

Yes. Thank you for the questions on the dividend. As Lars Christian said in his introduction and his response as well, it's about that what we said when we cut the dividend here the first half. We said that we did that based on the extraordinary market conditions that we were in at that point in time as there were issues then related into potential Flow Assurance. It was extremely low prices that we saw, both for the liquids as well as for the gas for that period.

What we now have seen, we have seen that there is some positive recovery that we have seen, especially the gas prices currently, quite a lot higher than we have seen in the beginning of the year or the beginning of the crisis. So in totality, the Board has then taken all this into consideration, also looking into all the improvements that we're doing. We are well on our way with the improvement program and the action plans that we communicated. So that was the basis then for them coming up with a dividend and setting that at $0.11 per share.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

So this is not only to do the quarterly results. This is also about visibility and confidence in the long-term earnings that we expect. Yes.

Operator

Our question comes 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*

Thank you so much Lars Christian for your help over the years and all the best for the future. One question for me. When I look at your tax paid, you are saying that in the second half, you have NOK 2 billion. You received a refund of $160 million in Q3. So am I correct that I should expect a payment of $400 million in the fourth quarter?

And then secondly, could you please help me unpick the impact of the temporary tax regime on the third quarter cash flow?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes. Introductory remarks by me and then Svein can fill in. We got $1.5 billion in refund from the Norwegian state. And that was partly as a consequence of the changes in the fiscal regime, the tax changes, but also what we looked at as commodity prices then for the second half, and then we have had an uptake in the prices. So we expect actually net then for the total second half, third and fourth quarter, a tax payment from us to the government of NOK 2 billion. So I'm not sure, Svein, if you want to add to this?

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

No. I think you explained most of it. As we communicated in connection with the second quarter, we then received about $1.5 billion in payments for first of August, but also then being clear on -- that we are doing recalculations for the second installment that we -- or during the first of October. So based on what we are now seeing on the totality, including the prices and those things, we see that we are in a position that for totality, we will pay then NOK 2 billion. So we paid more in October. And then we will have a refund also in the December payments. That's the technicality of how the Norwegian tax system is working. And of course, this has helped and being positive then to our earnings. But also the things that we're doing by ourselves by improving the OpEx side and the prioritizations that we're doing is also, of course, supporting the cash flow for the quarter.

Operator

(Operator Instructions) Our next question comes from the line of Thomas Adolff from Crédit Suisse.

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

2 questions for me, please. Just on shareholder distributions. And obviously, gearing is now slightly above 30%, ex leases. And in the past, you mentioned that 30% is your threshold and you like it to be below that. And when you look at 4Q and 1Q, you have potentially strong free cash flow generation, assuming the oil price doesn't collapse. I'm just wondering if there's a willingness or rather a discussion internally that once you come out of the uncertain winter corona season, whether you could launch or relaunch Phase 2 of the buyback? And then secondly, just looking at your production forecast for 2020. And if we look at the second half of this year, at the time of the 2Q results, is it fair to say that nothing since has changed because of the flexibility you have in your portfolio. For example, Snøhvit may be out for a while, but this can be fully offset by that Troll and Oseberg producing more than originally planned.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes. So on the gearing of 15% to 30%, it's kind of the guiding range. But we are comfortable by being lower than 15%, but also higher than 30%. And then there's this disclaimer, you can't interpret what I'm now about to say in 1 direction or the other, whether we are going to do it or not going to do it. But we have said that when it comes to the share buyback program, that is temporarily paused. We are committed to go through with a full $5 billion program, eventually, and then it's just a question of when and how much in different installments going forward. And what we now have done on the dividend side is the first change compared to what we landed on after we cut the dividend by 2/3. And we have also said that we are going to have competitive sort of shareholder value creation. So we will also honor that we will increase the capital distribution to the shareholders. We have one and/or the other on a forward going basis. But I come to tell you what that looks like. One, I'm not going to be around the next quarter, but -- and second, we don't guide on that. But -- yes. And then Svein, any comments from you?

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

No. Just on the production question that you had for the full year. As we said in the remarks, and Lars Christian said is that expected an 1.5 to 2 percentage point. Of course, it will depend on the gas prices and the outlook there. And we are utilizing the flexibility. Currently, the outlook for gas around -- more than $5 in Europe so -- on the NBP which has recovered quite a lot since the summertime. Then just a reminder also on the fourth quarter is that we have moved quite a bit of the turnarounds from second and third quarter, where we normally do it on the NCS. We have moved turnarounds out in time, but we will also then do more turnarounds in fourth quarter on the NCS than what we normally do. So that is also taking into consideration when we do the outlook for the full year.

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

Can I just quickly ask you on dividends versus buyback? Obviously, your plan is to get the dividend back to pre-COVID levels eventually. But the buyback doesn't have to wait for that, right? I mean, you can be quite dynamic and opportunistic depending on the environment. And sometimes when prices -- share points and/or buyback makes more sense, right?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

We are not allowed to think like that. For us, share buyback is all about capital distribution. But you are correct that share buyback might be more a flexible tool compared to kind of a steady dividend, unless you want to sort of pull out of the toolbox extraordinary dividend. But for us, share buybacks makes more sense than extraordinary dividend because it secures sort of future value creation and shareholder distribution by reducing the number of shares and increasing the value per share in the company.

Operator

Our next question comes 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 a question sort of linked to the report about North America investments. And obviously, there's some further impairment charges coming through this quarter. Obviously, hindsight tends to be 2020. And so we're all experts looking backwards. But is there some lessons to be learned here looking forward? Because it seems to me analogous to, let's say, North American shale is the movement by the industry into investing into renewables, and particularly wind. So I was just wondered whether you're able to sort of walk me through the rigor that you apply to thinking about investments into wind. I particularly say that because it does feel to me that it's starting to get that flavor of a sort of gold rush where everybody wants to invest in the same thing at the same time.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes. Another really good question. On the impairments, the majority of it is related to 2 assets that we are -- mentioned, Bakken and Mariner. Bakken more on the pricing and Mariner price, but also on the reserves. But another way to slice this is actually to say that the majority of the impairments for this quarter has to do with assets that we either acquired or sanctioned way back in time. And whatever we have sanctioned since then is much, much more robust. And that should not come as a surprise to you. You have seen year in, year out, we report on improvement of the sanctioned -- unsanctioned portfolio of projects when it comes to breakevens and such.

But I think that is something just to be mindful of that it's a lot of sort of history here that as long as those assets are part of your portfolio, this is what we are facing. But we are also quite proud. And I must say I'm very proud of the job that the U.S. onshore organization will support from technical base organization here in Norway. The huge improvements they have been able to deliver on not only on the HSE side of it and flaring is top-notch in many ways compared to the industry, but also on the operational performance and the costs, whether that is operations or drilling.

So huge improvements that have helped us to make it more robust, but still challenging in the current price environment. But as we said, in the quarter, positive free cash flow also from the onshore business. So -- and that is also important to just bear in mind. Then to the really core of your question, onshore being something that I think in the beginning, it was partly a game for flipping assets. It was more of a real estate game than necessarily oil and gas business. You bought land, you proved up -- increased the value by drilling and improving up oil and gas, and then you hope that someone will come and buy your land in many ways.

We have seen that behavior that you're describing in the renewable side for a while. I think it's going to be fueled even more going forward. And that is why we have been very, very cautious on what we have been willing to bid for. And that is why we have been very restrictive also when we have first put in a bid that is not going to bid away all the value creation because this -- we do this because we want to build a business. We do this because we want to create value. And of course, this is -- if you're an NGO and think of this as saving the planet and reducing CO2 emissions, so of course, this is part of the toolbox that the world in totality needs to turn to make that happen.

But as a commercial company with responsibility in many dimensions, among one being the shareholders, we need to create value. And that's why we do this, but only then enter into assets where we can believe we can create value. I think we said this in a couple of investor calls some weeks back and months back. Going forward, I think it's going to be buyer's market in oil and gas segment and sellers' market in the renewable segment. If you -- when you look at the appetite and also look at the plans of many companies do have. But I'm very happy walking out of the door now on tomorrow afternoon, my last day in the office, is that we have a 3% compound annual growth rate in the oil and gas business towards 2026. That's a healthy good growth just based on what we have.

And we have a 30% annual growth in the renewables segment, in that time frame, annual growth just based on what we have. So we are in a very good position to take the time to make this right and not jeopardize value or erode value or do some moves that in hindsight resembles what we now see for, in many cases, for many companies and many assets when it comes to the unconventionals. So I'm not sure, Svein, do you have any additional comments or? It was perhaps a long answer.

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

Yes. I agree with you, it's about -- has been also said that the CMU, it's about value-driven growth, it's about creating value and creating profitability in the NES business as we're moving along. And that's what we have based our strategy on. And I guess, we have also been able then to demonstrate a good value creation also lately with the divestments that we did. And as Lars Christian said, expect to book a gain then in 2021 of around $1 billion on that transaction. So value over volume.

Operator

Our next question comes from the line of Biraj Borkhataria from RBC.

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

I just had a couple of follow-ups. Just on the renewables business, you are starting to build the track record of securing assets starting to develop as a model in there. And I suspect the capital employed of that business is now quite small on a net basis. Could you just clarify what is the current capital employed of new energies?

And then the second question, going back to the dividend. You mentioned as part of the initial commentary, you have good visibility on cash flow. Can you just -- are you able to provide any color around expected cash tax payments for 2021 or at least the first half of 2021? Any color on that would be helpful.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Sure. Ørjan or Svein?

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

I can go on the -- start with the latest one is for the first half of the quarter and then the cash taxes on NCS. It's -- what we are now seeing, it is then related into the tax payment on the Norwegian continental shelf. You pay half of the taxes in the year it happens and half of the tax in the year after. So in a way, that means that what we have said now is that we are then going to have NOK 2 billion in payments than for the second half. And everything else equally if the prices are as we projected and as we worked with it, then we should expect that we get the same then for the first half of 2021. So that's the way it works. If prices are lower and higher and those things, then there will be adjustment when we do the final calculations based on the results that we are generating also in fourth quarter.

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

Yes. So what we have on our books, of course, this is equity accounted investments. So you need to put that into account. So approximately between USD 1.2 billion and USD 1.5 billion in our books right now.

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

That's equity as Ørjan says (inaudible)

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

Equity, got it.

Operator

Our next question comes from the line of Anders Holte of Kepler Cheuvreux.

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

First, congratulate Lars Christian on a very well-handled tenure. And I'm sure that both of you and all are happy when it comes to the share price, especially comparing your performance to peers so far this year. So job well done. And also my question is -- another quick one actually this time around. Now previously ever heard from Equinor that you have, at least after the summer, you were in process of securing the project financing at Dogger Bank. And by that, I got the impression that (inaudible) of Dogger Bank was not going to be placed by Equinor ASA, but more in terms of straightforward project financing. So I'm just curious to know if you have any update on the actual financing of Dogger Bank and it's still looking to be project finance or if you will write that through Equinor ASA and fund it through -- yes, the parent company as you have in the past?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes, perhaps, Mads, you want to give it a go on this one?

Mads Holm

Yes. Thank you very much, Lars Christian. Very good question. So the way we do think here is that we always look from a totality where we look on how we finance things, and we are searching towards what makes most sense from a liquidity and a price perspective. We will consider project financing together with BP once they are fully on board on the projects. So I think that's -- I'll leave it with there.

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

Just Mads, it was related then to the Dogger Bank and in the Dogger Bank, we are in the process then for working with project financing on that asset, together with our partner, SSE

Operator

Our next question comes from the line of Alastair Syme with Citi.

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

Lars Christian, I remember this call quite differently last year. And I remember because you ended up after to defend the oil price reset and people sort of criticized you for being too aggressive. I think, you've now covered it again. I don't really want to get into discussion of what the right price is. But I'm intrigued about what stops you from simply using the full curve agreement analysis. Is it simply that doing so put too much pressure on the balance sheet? I get it that you're not sanctioning projects on this basis. But my observation is that, in a way, you're creating an impression for investors that they're being asked to back a view that oil prices go back up?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes. And we believe the oil prices will go up again. This is a reoccurring topic and I talked to a lot of different sort of communities, whether that is investors, analysts, journalists or peers or what have you. And what I see is it's -- that discussion is somewhat skewed towards a huge focus on the demand side and the weak demand which we see now in the market, but that's for more of the short-term, but a very little focus on the supply side and what has been taken out of new capacity over the last year by projects being not sanctioned or postponed or stopped even in halfway into the project sort of development in a few cases. So for us, this is a huge and very thorough analysis. Everything from population growth to GDP growth in different countries. We have supply demand for not only oil and gas but for other energy sources and what have you.

And then you do the interactions and simulations and we do sensitivities and robustness around it. And that's why we have ended up with a revised set of prices, taking them down $13 for the 2020 in prices, for example. And that's why I tend to use the word that it's growing insight. Because whatever we saw in March, April in the drop in the commodity prices, including the forward prices that you referred to, that -- there was not any fundamentals behind it. It is just sort of the market reaction there and then and the assessment around that. But one really sort of fundamental factor impacting the medium, long-term supply demand factors would be, if you have a breakthrough technology to more of that green or blue hydrogen works and it's profitable and can compete with whatever. And we have CCS on top of it. That would be sort of a really game changers that will impact the medium, long-term prices. And I also get this question about, is this in line with well below 2 degrees Paris and all that. And who knows what the price is for well below 2 degrees scenarios in 2030, '40, '50 will be like.

Lower oil and gas prices stimulates increased demand. High prices stimulates a drive in the direction of other sources. So what's the truth, no one knows until we are there -- out there out in time. But what we are -- what is acquired of us from the regulator and auditor and is that we have a personal view on what prices should be like out in time. This is our best assessment, and this is what we believe in to be the most likely scenario. And the prices we will have until we deem them to be different. And that's the technicality part of it. The way that we then run the business when it comes to sanctioning projects, is that the -- we have much tighter set of criteria internally. I have this 6 pack of KPIs that all my colleagues in the CEC have to sort of adhere to deliver on when it comes to sort of sanctioning and exploring and buying and driving the business forward. So yes, that's the short answer to your question.

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

Absolutely. I wish you all the best to what brings you next.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Thank you. I guess, I would know my market value hopefully in a couple of months' time. Yes, I don't know.

Operator

Our next question comes from the line of Christyan Malek from JPMorgan.

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

Lars, well, first of all, let me just say good luck and well done for amazing tenure in terms of managing CapEx efficiencies. And I think what you've done has been quite extraordinary on the CapEx efficiency. But just coming back to the point around the oil price in your view. What strikes me is I'm quite perplexed as to how you have managed your dividend through the last 6 to 12 months because I remember 6 months ago, you were saying that the reason for the cut was to prioritize project investment. And since then, we've seen project delays, and yet you still have the positive view on (inaudible) sort of concerns you just why are we buying back stock and raising CapEx, given you've got such a great portfolio, particularly in Brazil. So I just want to sort of square out your constructive view versus capital allocation priority of the allocation, while I welcome the dividend. I'm just not quite clear as to the -- the sort of the logic in terms of how it's being prioritized to the capital agreement.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Yes. This is another sort of a big question. But very -- sort of very much to the core of what an executive committee needs to relate to and factor in and then make decisions and prioritizations. The -- given the growth that I just mentioned, both in the renewables and in oil and gas portfolio. And this is then value over volume, but still you need to sometimes talk about the volumes because there will be no value without volumes. So this is about growth in oil and gas and growth in the renewable side, profitable.

And one of the learnings is never run a business just based on one KPI because that will drive the business in a direction you don't want to, you need a balancing act, but you don't -- in our case, you don't want to either get the cost inflation back into our company. And the best way to get cost inflation back into your business is to start running. And we don't want to do that. Because one of the key learnings has been to just work the assets and the project diligently, walk one day to the next and make it work. And this is also about our capacity. Of course, we could have -- we have a huge sort of list of projects that we can tap into and speed up even more in the short term, but that would stretch the organizational capacity that we are having. And I'm afraid it will lead to more cost inefficiencies being brought in, so then you start eroding value again. And then that erosion leads to that you are not as robust as you would alternatively have been.

So then on the -- on this question then on prioritizing capital distribution versus CapEx. I mean, this -- it's kind of a balancing act. We like the shareholders and the market to see that this is a growth share price and also a dividend sort of share buyback sort of yield sort of share that you're buying into. And that's what you're trying to balance in this. And then you need to safeguard also your balance sheet, of course, from a gearing point of view and make this robust the -- more than 8 -- around $8.5 billion that we took on, on debt earlier this year, but also that point of time, we didn't know what the financial market would look like and responds and the pricing and robustness given the early days of the COVID-19 or corona virus situation. Now we know more.

But at the same time, we're taking them on with a very low interest rate compared to the average that we have had. So yes, I'm quite proud of the balancing act that we've been able to deliver.

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

Just a quick follow-up. So should we see any major change in terms of following your sort of transition? Also we assumed that its capital (inaudible) is broadly consistent, just to manage our expectations in terms of the new management team.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Well, then you need to ask the new management team, I guess. I don't want to go into that if this is a forward-looking one, yes.

Operator

Our next question comes from the line of Jason Kenney from Santander.

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

Thanks. Maybe just ask a question about the renewables ambitions in a slightly different way. So if I'm modeling oil, gas and renewables on a total energy basis, I'm thinking Equinor will be around 6% renewable energy supply by 2035, which doesn't sound a great deal when you compare that to the European peer group, which could be 15% renewable energy by 2035. And even a couple of peers are targeting a 22%, 25% renewable energy. So I'm adding up all of your renewable power, adding on top of your hydrocarbons.

So I suppose the question really is, is that 12 to 16 gigawatt of renewable power ambitious enough to truly kind of say that you are going to be a renewable-driven energy entity within the next decade?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

On this one, I think -- what at least we are able to show you is a visible path towards that number out in 2035 based on existing projects, which I think is good. Then on what you have on ambitions on top of it, I mean, we could have that we too. But I think what really makes sense for us is that path, back it with concrete projects, specific projects and then it's a balancing act, too. We don't know what the future of renewables will look like, neither from a composition point of view, or from a revenue sort of income point of view.

So where do you place your bets in this is back to Jon's question of, is it sort of a bubble in the making? He didn't use that word, but that's what implicit in his question. And if so, you want to tip toe and walk this with cautiousness, but also robust portfolio and quality assets. So that's the balancing act we want to take because we want to create a business. We want to create value creation for you guys and then safeguard the company, yes. Then we are off to the -- is it the last question? Okay.

Operator

Our final question comes from the line of Martijn Rats from Morgan Stanley.

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

Yes. I have a very short and practical one. So the CapEx guidance for this year. I just wanted to check the math. It seems to imply, given the 9 months sort of total so far year-to-date that it implies $2.5 billion of CapEx in the fourth quarter. But then looking at the CapEx guidance for next year, also implies $2.5 billion a quarter. I just wanted to check that this is the correct interpretation. Are we now just looking at $2.5 billion of CapEx per quarter. Is that basically what it is?

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Svein?

Svein Skeie - *Equinor ASA - SVP for Performance Management and Analysis*

Thank you for the question. What we have now said is that for this year, we stick to our CapEx guiding of around $8.5 billion. We are now just -- yes, almost $6 billion in organic CapEx so far. So that's the math. And for next year, we have also then said that our guiding is then around $10 billion for 2021 in organic CapEx. So that's the outlook.

Lars Christian Bacher - *Equinor ASA - Executive VP & CFO*

Thank you, Svein. And then if I could have some closing remarks from me, since this is my last analyst call as CFO of this great company, a company that I worked for close to 30 years. And I have been privileged with all the tasks that -- and challenges that have been thrown at me in many ways of opportunities, but even more so, I'm really humble, but also appreciative of all the trust that my fellow coworkers have put in me.

And then to you guys that have called in and by guys, I'm meaning both boys and girls. I really appreciate the time that I've had with you guys to all your questions. We learn a lot from you, perhaps more than you think of, sometimes. I understand that some of the questions are specifically related to us and sometimes the questions are, you want to hear our answer because you want to compare with someone else. So I learn what you ask other companies by the questions you ask us too. And you are helping us to improve and become gradually as stronger and stronger company. So by that, I wish also you all the best in your endeavors and whatever you have all jobs now and the future holds for you, and then I will just encourage you to be cautious and remember to stay safe. Thank you.

Operator

This now concludes our conference call, and thank you all very much for attending. You may now disconnect your lines.