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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome, everyone, to the Equinor Analyst Call Q1. (Operator Instructions) Thank you. I will now like to hand the call over to Mr. Bård Glad Pedersen, Senior Vice President and Head of Investor Relations. You may begin your conference.

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

Thank you, operator, and good morning to you all. My name is Bård Glad Pedersen, and I'm heading up Investor Relations in Equinor. As usual, I'm here together with Torgrim Reitan, our CFO. Torgrim will take you through our results first before we open for the Q&A, and we will keep this within 1 hour.

So, with that, I hand it to you, Torgrim.

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

Okay. So, thank you very much, Bård, and good morning, and thank you all for joining us. I hope you all are doing well and are being well since we last met in February. So, let's dive straight into the results.

Today, we delivered solid financial results, driven by strong operational performance and production in a quarter with increasing liquids prices but lower gas prices than we saw last year. The solid results are also supported by MMP coming in above the guided range. From this quarter, we have introduced adjusted net income and adjusted earnings per share as new performance measures. We also renamed some measures to better align with industry practice and we no longer adjust for over- and underlift.

In the quarter, we report adjusted operating income of $7.5 billion dollars before tax and a net income of $2.7 billion dollars. We delivered solid cash flow from operations of $9.7 billion dollars and $5.8 billion dollars after tax. And earnings per share were $0.96. We continue to make strategic progress across the portfolio. Earlier this year, we were awarded 39 new production licenses on the Norwegian Continental Shelf. We know that area well and we are confident that we will make new discoveries.

We are cutting emissions while we invest. And recently, the Sleipner and Gudrun fields on the NCS were connected to power-from-shore. We reduced CO_2 by 160,000 tonnes per year, and that will lead to around $27 million dollars in reduced OpEx on an annual basis.

We recently announced high grading of our U.S. onshore gas position through a transaction with EQT. We will swap our operatorship and interest in Ohio for non-operated interests in the Northern Marcellus Shale in Pennsylvania with lower breakeven and lower emissions and also leading to increased production and profitability.

Within renewables, we remain value focused and disciplined. As you have seen in the recent Norwegian offshore wind auction, Sørlige Nordsjø II. In that auction, we participated but we stopped at a bid level that would have created value. And we were okay not to win.

Value creation is and will be our top priority. 2024 is the year of derisking for Empire Wind 1 project in New York and we are progressing. After CMU, we were awarded a new offtake agreement with significantly better terms.

Next, we aim to take an investment decision and secure project financing later this year. And with a new contract and project financing, we expect a nominal equity return between 12% and 16% for our U.S. East Coast offshore wind portfolio.

From there, we also aim to farm down and bring in a new partner, which will significantly reduce our CapEx. We continue with strong capital distribution, in line with what we communicated at our Capital Markets Update in February. For the quarter, the Board approved an ordinary cash dividend of $0.35 cents per share and an extraordinary dividend of $0.35 cents on top of that. As you know, we intend to grow the quarterly cash dividend by $0.02 cents on an annual basis.

In February, we also introduced a 2-year share buyback program to increase predictability. The program is $10 billion to $12 billion dollars in total with $6 billion allocated for 2024. For the quarter and subject to AGM approval, we announced a second tranche of up to $1.6 billion dollars in line with this program. This tranche will start following the AGM in May.

For 2024, we then, therefore, expect to deliver a total capital distribution of $14 billion dollars, as we have said earlier, and this translates into a yield of around 17%.

Turning to safety. In late February, we had a fatal helicopter accident, and we lost a dear colleague and 5 people were injured. We are working closely with authorities, and we have an ongoing internal investigation with a focus on helicopter safety and emergency preparedness. So, although we have had positive trend for safety performance, this is a very strong reminder to keep safety as our #1 priority.

Production was strong in the quarter, in line with our expectations and growing by 2%. The share of liquids in production increased compared to the same quarter last year. Our NCS production is driven by strong production efficiency and increased capacity at Johan Sverdrup and ramp-up of Breidablikk, an asset we started last autumn.

Internationally, production grew around 3%. That was driven by partner-operated Vito field in the U.S. Gulf of Mexico, Buzzard in the U.K., and new wells in Angola. U.S. onshore gas production is somewhat down. And operators are now planning curtailment of production in a response to lower prices.

So, we have not included this in our production guidance, so that leads to a larger downside risk to our guiding. But the curtailment is done to create more value and prioritizing value over volume, and as you know, we are supporting this.

Power generation is up, and our renewables production is almost 50% higher than in the same quarter last year, mainly driven by the Rio Energy acquisition and the start-up of the 500-plus megawatt Mendubim solar plants in Brazil, where we own 30%. Offshore wind production is also increased in the quarter. But gas-to-power production from Triton was lower due to low spark spread.

So now let's turn to our financial results. Oil prices increased through the quarter, while gas prices were down by actually 50% from the same quarter last year.

Strong production drove E&P Norway's results, delivering adjusted operating income of $5.8 billion dollars and $1.3 billion dollars after tax. Our international E&P segments delivered around $1 billion dollars in adjusted operating income, and actually more than $800 million dollars after tax, driven by production growth and that portfolio, which has been high graded over time.

Then MMP, they have delivered within or above the increased guiding for the past 5 quarters. And this quarter, results came in above the range at $887 million dollars. Strong liquids and LNG trading contributed to these results. Renewable energy assets in operation contributed with $46 million dollars in the quarter.

As we continue to build the renewables business, the adjusted operating income for the segment was negative as expected. Our OpEx and SG&A, that increased by 1%, while our production grew by almost 2%. However, we are not shielded from market effects, inflation and cost pressure. And because our accounts are in dollars and the Norwegian kroner remains weak, the impact is not easily seen in the accounts.

So, there is an underlying growth in OpEx, and it is primarily driven by operation and maintenance, transportation costs, and increased activities within renewables and low carbon solutions. We maintain a strong focus on cost control and prioritization, and we work closely with partners and suppliers on this.

So over to our cash flow. This quarter, we have solid cash flow from operations of $5.8 billion dollars after tax. We made one NCS tax installment of around $3.5 billion dollars. Next quarter, we will pay the two final installments based on the 2023 earnings totaling around 75 billion kroner. So higher tax payments in the second quarter than in the first quarter.

At the Capital Markets update, we were expecting our cash flow from operations this year of around $17.5 billion dollars after tax. Now and based on forward prices and including interest elements, we still expect to deliver around this level. And although gas prices are around $4 dollar per MMbtu lower than our CMU assumptions, but also oil prices are higher than we assumed.

Next year, we expect to be back to delivering around $20 billion dollars in cash flow from operations after tax. You may also want to note that our sensitivity towards changes in gas prices is dampened by the Norwegian tax system. As a general rule of thumb and disregarding the tax lag, a $4 dollar change in the gas price equals around $1.5 billion dollar change in cash flow from operations after tax.

In the quarter, we spent $3.2 billion dollars in cash dividends and share buybacks executed in the market. The state's share of buybacks will be paid in July impacting our third quarter cash flow. Our organic CapEx for the quarter was $2.8 billion dollars.

In addition to all of this, working capital decreased by $3.2 billion dollars and this is mainly due to lower gas prices and lower third-party and equity crude volumes at the end of the first quarter. After taxes, capital distribution and investments our net cash flow came in marginally positive at $8 million dollars.

So, we have a solid financial position with more than $37 billion dollars in cash and cash equivalents and a net debt to capital employed of negative 20%. As we said at the Capital Markets Day in February, we expect the net debt to become positive by the end of this year, and this still remains the case.

So lastly, since February, our guiding remains unchanged. But as I mentioned, there is uncertainty related to commercial curtailment of gas within U.S. onshore.

So, with that, I hand it back to you, Bård, and I do look forward to your questions.

QUESTIONS AND ANSWERS

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

Thank you, Torgrim. We are then ready to start the Q&A. And I see we have a good list already. (Operator Instructions) We'll then start. And first on the list was Biraj Borkhataria from RBC. So please, Biraj, go ahead.

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

I've got 2, please. The first one is on MMP and obviously, another strong result this quarter. I was wondering if you could just help dissect the drivers and give a bit more color on the trading front because the volatility is obviously still high. But relative to the last couple of years, it's lower. So, I'm just wondering is this Equinor taking on more risk than before? Or is there something else driving it? Just trying to understand the sustainability of these results.

And then the second question is on Johan Sverdrup. There's some expectation that, that field will come off plateau either later this year or early next year. Is it possible to give some color on what the next 2 to 3 years will look like for the field? Should we expect a relatively steady decline post plateau? Or do we have a decline and reach another lower level of plateau or something else? So, any incremental information will be helpful there.

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

Okay. Thank you very much, Biraj, 2 important questions. So, first on MMP. Yes. So let me try to sort of give you a little bit more insight into that. Traditionally, it is sort of the gas trading that has sort of been the largest contributor to that result. Still, gas and power is delivering well with above $500 million dollars in earnings.

Crude is almost at the same level, and they normally are not. They are normally or historically at least, at a lower level. But what we see is that with the Russian oil going to Asia, that creates a good opportunity for our portfolio and our assets. So that enables us to take advantage of the qualities that we have in our portfolio. It gives us opportunities to trade in the time dimension and it gives us opportunities to trade geographies as well. So those are the 3 elements that drives it.

It's driven by the assets that we have with certain qualities. It is a flexible, large shipping fleet, and it is a trading organization that trades 24/7 around the clock and global books. So that has sort of proved to deliver well.

On the gas side, I would say, is still a good result. But volatility within natural gas and also the geographical arbitrage opportunities within gas are sort of less than it has been over the last few years, but still, they continue to deliver well.

On your question whether we take more risk, well, you know - not really, this is asset-backed trading and sort of the spec book or the -- is very, very limited as such. So, this is based on the underlying portfolio and assets and the flows.

On your second question, Johan Sverdrup, yes. So, what we have said is that we expect Johan Sverdrup to come off plateau towards the end of this year or early next year. I think it's important to remind ourselves that we have accelerated production on Johan Sverdrup significantly over the last years. And as you remember, in April, we sort of qualified 750,000 barrels per day in capacity.

Then I really would like to leave with you that Johan Sverdrup is designed and built for massive water handling with a very, very large water handling capacity. So, what we see is exactly what we should expect.

Out of curiosity, we actually plan to flush the reservoir several times with water during the lifetime of Johan Sverdrup to improve and increase regularity, not regularity, but the recovery of the life, we'll say, so as you would understand. Water management is a very, very integrated part of the value of the assets.

So, you see -- you have seen over the last few months, a little bit of increasing water cut in the wells, that is as expected. And that would continue to, over time, increase as you would understand. So, the way to sort of work with decline is to drill new wells. It is to optimize production and water management, and it's also about future phases like Johan Sverdrup Phase 3 as such.

So, on that note, we have put in one new well recently. There are two wells ongoing. And when those are done, there are more wells to be drilled as well in that reservoir.

Yes, Johan Sverdrup Phase 3 might be of interest. That is a tool to manage decline. And that is underway, and we expect that to start up in maybe late '27 and then -- or '28 as such. I mean, it is progressing. So, this is -- I'm giving you a very long answer, Biraj. But this is, of course, very important for us. And this is at the core of the competence of the company to manage decline and optimize the recovery rate. So, thanks, Biraj.

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

Thanks, Biraj. Next on my list is Teodor Sveen-Nilsen from Sparebank 1 Markets. So, Teodor, please go ahead.

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

Two questions from me. I just want to follow up on Johan Sverdrup. I understand that this is a complicated field and complicated operations you currently are carrying out. But I just wonder for 2025, and we know that the field is coming off plateau now. What should we model in terms of value production next year? Will it be 5%, 10% or 15% below the Q1 2024 production, any like kind of thoughts or guesses around that would be useful.

Second question is on the gas market and the gas value chain. I just wonder, in the long term, do you plan to take any additional positions in the value chain for LNG from U.S. to Europe? Or are you happy with your current position?

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

Okay. Thanks, Teodor. Yes, so on the -- on Johan Sverdrup, yes, it is a complicated field. But clearly also with a very, very significant potential for recovery and we have sort of assumed a 70% recovery rate on that asset. So, the flow characteristics are very good. We are not ready to give you a rate that you can use for your calculations. But as sort of the field is coming off plateau and it will come off plateau, clearly, we will help guiding you all on that development. I think it's very important for me to say that the production guiding that we have put forward for this year, next year, the 5% growth in production towards 2026 takes into account decline on Johan Sverdrup. And the development of Johan Sverdrup is exactly what we expect and have forecasted in our communication.

Yes, then on the gas markets. Yes. So clearly, the European gas market has been through a few very, very turbulent years and sort of there is a new reality surfacing in the market. The European gas market has moved from being priced based on pipe gas to becoming an LNG priced market. So, our long-term expectation for price in Europe is based on actually competition for LNG between Asia and Europe. And we expect that to be around $10 per MMbtu in the long term.

So, I would say, indirectly, we have actually a very, very large exposure to LNG pricing to the piped gas position in Europe. So, we already have that. I mean, we also have a couple of third-party contracts, with Cheniere in the U.S. So, I mean, it's there and then -- but we have no sort of plans to build a significant LNG business beyond what we have currently.

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

Okay. That's clear. Can I just follow up most for your 2026 guidance of 5% growth. How much Sverdrup decline had this factor into that estimate?

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

Thanks, Teodor. That's actually the exact same question as you asked. So, I can't give you a different answer, then we'll have to keep the dialogue going on that. It is developing as expected and clearly it boils down to our ability to manage water, to drill new wells, and optimize the reservoir and production characteristics.

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

Thank you, Teodor. The next one is Martijn Rats from Morgan Stanley. So Martijn?

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

I have 2 as well. There was a Bloomberg headline this morning that says that Equinor sees additional risk to oil projects in the U.K. North Sea from the Labour government if the Labour government were to come in. And I was wondering if you could provide some color sort of behind that comment, what are sort of the risks that, that you would see if that were to happen, that would be helpful.

And just very briefly to follow up on sort of Biraj's question on MMP. I fully understand the comment about, so gas is still good as per normal, but then oil was a bit of an upward surprise in terms of the trading results for this quarter, partly because of the diversion of the Russian cargoes to Asia. But Russian cargoes being diverted to Asia that started already sort of back in 2022. Is there something -- like why this is now surprising to the upside? Could -- could you have said the same thing over the last couple of quarters. Is there something sort of changed from that perspective?

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

Okay. No. Thanks, Martijn. So, on your first question related to U.K., first of all, as an industry, we are very dependent on stable and predictable framework conditions and tax systems as well. And sort of when Labour is putting forward potential changes, that creates uncertainties. And that is something that we need to take into sort of our risk management and the way we think about capital allocation in the portfolio. And the U.K. is a very important country for us, and it will remain so. But we will also be very diligent in sort of that there needs to be a good link between risk and return as such. So, predictability, very, very key, and that is what Anders spoke to Bloomberg about this morning.

On your second question on MMP and oil trading and all gas, the results related to our oil trading, portfolio of producing assets and the quality differences and -- or shipping fleet and trading organization gives this opportunity. It will -- opportunities will arise between quarters. And even if there is a good asset base to take advantage of it, the results will go up and down on the oil side as well. But what we clearly see is that, that what we have is actually a flexible set of assets that enables us to take opportunities of arbitrage situations when they occur.

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

Thank you. Next on the list is Michele Della Vigna from Goldman Sachs. Michele, please the microphone is open.

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

Congratulations, Torgrim, on the strong results. Two questions, if I may. The first one is on the operating working capital release, very impressive in this quarter, around $3 billion dollars. I was wondering if you could shed a bit of light, especially on how much do you think this can be structural or how much it may reverse into the coming quarters?

And then secondly, you've given a very good layout of how you're thinking about Empire Wind and the pricing you got there and the move towards FID and project financing. But I was wondering, do you think we could get to farm out this year and therefore the deconsolidation of about $1.5 billion dollars of capital or maybe that could come later and so going to 2025?

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

Thanks, Michele. Very good. So first one on the working capital reduction. So, in the quarter, the reduction was $3.2 billion dollars. And currently, our working capital level in absolute terms is around $5.5 billion dollars. So, this comes on the back of lower gas prices. It comes from lower third-party volumes in sort of -- when it comes to oil and liquids and lower volumes sold in March compared to December. So that's sort of the drivers behind it. And then, sort of on your question, is this structural or not? Well, it will vary over quarters, and it's typically driven by volumes is driven by absolute price and it is also driven by volatility.

And you might remember during 2022 with very high gas prices and rather extreme volatility, we had at one point in time, $10 billion dollars in collaterals in the balance sheet. That's, of course, not the case anymore. So, I would say that the current working capital is sort of a fair reflection on current portfolio, current prices, and current volatility, but we must be prepared that it goes up and down on a quarterly basis going forward.

Yes. And then the second one was Empire Wind, yes. So very glad to have received the new contract with the state of New York. The price that we have in our contract has not been revealed, but the average of 2 contracts is $150.15. When sort of the contract is finally signed, we will sort of be able to communicate a specific price. I'm looking forward to that.

The old contract was $118 dollar per megawatt hour. So, as you understand, this was a significant step-up, and it significantly changed the economics of the project.

Then when it comes to final investment decision, that is progressing. All contracts are settled for practical purposes. There are very little exposure to inflation left in the procurement. And we have Vesta delivering 15 gigawatts turbines, we are sort of from as they say -- it's a plain vanilla compared to -- it's not plain vanilla wrong word, but it's a proven technology compared to the others have been planning for. So, we feel confident in the delivery of that.

Then the financing package will be put in place and then it will be farmed down. And actually, this asset will be farmed down for the second time, as you would remember. So, when this is derisked, financed, there is a broad set of potential interested party in this asset, and we will get on with that as soon as we can. I don't have a specific date for you, but clearly, it is very important for us to have it derisked and farmed down as soon as we practically can. So, thanks.

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

Thanks, Michele. Next question is Kim Fustier from HSBC. Kim?

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

The first one is just a quick one, a housekeeping question on the EQT deal in the U.S. Could you quantify the positive impact on production? And maybe more broadly, what should we read into your decision to no longer operate anything in the U.S. onshore? Are there any other areas around the world where you'd like to relinquish operatorship?

And then my second question is on gas-fired power. You've got the Triton power station in the U.K., but you're also building out renewables positions elsewhere. So, are there maybe other countries where you think you might need to buy gas-fired power generation capacity in the future?

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

Okay. Thanks, Kim. Very good. So, first on the EQT transaction, on production side, it typically will add around 15,000 barrels per day in increased production. And as I mentioned, lower breakeven, lower emissions and better returns. This was sort of the last piece of operated activities within U.S. onshore activity. And it was a small operations where we lacked scale and we have come to the conclusion that we don't see ourselves as a future operator within U.S. onshore activities. And we instead want to prioritize working with the best operators around and within the gas portfolio, that is now the case. So, this is sort of another example of high grading the international E&P portfolio. And building size and scale in certain areas where we do operate and where we can take advantage of that.

On your second question around CCGTs. CCGTs are a natural sort of an important part of an energy system with an increasing share of renewable and interruptible power in it. And it creates a good link between the natural gas and renewables. And we do see natural gas to be a very important part of the long term here.

What we typically will consider are CCGTs that can be ready for either capture or hydrogen ready. And as an example, we have an MoU with RWE related to 5 hydrogen ready CCGTs in Germany, a landing point for a significant part of our natural gas to Europe. So, it is an integrated part of the way we think about the future markets.

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

Thank you. The next question is Yoann Charenton from Bernstein.

Yoann Charenton - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

I would like to ask about Johan Sverdrup again, if you don't mind. You have said that you have very significant water handling capacity at the field, and you confirm as well that the production trend is in line with your expectations. At the same time, your largest partner in the field said yesterday that this year's activity program will involve the drilling of 10 production wells instead of 8 as stated earlier this year. So, for production to continue to trend in line with expectation, are you ready to drill more well this year, and can you explain why as well you are adding 2 wells to this year's program?

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

Okay. Thanks, Yoann. Yes, you're right. So, drilling of new wells will be a key element of optimizing the production profile on Johan Sverdrup. So, there are currently two wells ongoing, and there are more to come. I think we have said by end of second quarter up to 5 wells. So, there are more wells being started and progressed during this quarter as said, and then we will continue with that during the rest of the year.

So, this is -- there's no magic in this. This is hard work, good planning and optimizing the field. And as we produce and as we drill, we learn more and more about the reservoir and the placing of the wells. And everything that we see is very good and in line with what we have seen and expected since the start of the field. So -- but clearly, I mean, we will give you an update as we drill and as we progress and as we report.

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

Thank you, Yoann. The next question is Paul Redman from BNP Paribas.

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

I've just got 2 quick questions. You mentioned a couple of times the curtailment impact and the fact that that's not in your guidance for production, any idea of kind of what the impact of curtailment would be and the conversations you've had with EQT, kind of how likely this would be? And then the second one, is just a more general question. Just you've got some big projects coming online over the next couple of years, any updates on progress on Johan Castberg and on Bacalhau?

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

Thanks, Paul. Very good. Yes. So, gas prices in the U.S. are on a rather low level. And we see that the way our operators there are typically working is that they sort of hedge the gas price for a certain amount of time. So -- but gas prices have remained low for quite a while, so those hedges are coming off. And that sort of discovers a sort of a true exposure to underlying gas prices. So, what they say, and this is Chesapeake and EQT in particular, is that they will adjust activity to optimize for value. And Chesapeake has said they're going to reduce by 1 rig. And then, of course, they have an inventory of wells that can be completed. They also say they're going to adjust that.

Then beyond that, I mean, there are also opportunities to choke production as such, which is also on opportunities across these operators. So, I will leave it to them to be specific on the impact of this. So, I just encourage you to follow EQT and Chesapeake's communication around this to and then try to find a readout on the impact on our portfolio. It is still too early to -- for us to have a specific number for you. We just wanted to be ahead of the game, so you are aware of it.

I think it's important for me to say that we clearly support this. And secondly, these are barrels with low earnings impact, because of the gas prices is low, and they will come back at a higher price and with higher earnings as such. And that's, of course, something I do appreciate.

On your second question, the big projects, yes. So let us take Johan Castberg, Barents development. It now sits in the yard of Stord on the West Coast of Norway. And we do plan a sail away very soon. All the sort of offshore work is done and quite a bit of commission is finished. So, the risk in sort of completing that asset, has come down quite a bit during the quarter. As you would remember, there was quite a bit of carryover work from Asia when taking this to Norway, driven by COVID and that period as such. So, I mean, it has been some challenges, but that is now considered to be handled in a good way.

On Bacalhau, so Bacalhau came out of the yard in China and now sits in Singapore. It came there last summer. Also here, work is progressing well, and we expect first oil next year. So, this is progressing well. I think, it is worth mentioning that clearly, in Brazil, there are inflationary pressures as such that we monitor very closely and are prepared for managing as such. So those are sort of the 2 big ones that are under construction. And then we have Rosebank, as you know. We have Raia in Brazil as well coming and then Sparta operated by Shell in Gulf of Mexico. Those are sort of the big ones underway.

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

Thank you, Paul. The next question is Henri Patricot from UBS.

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

Just one question, please, on the European gas market. Could you perhaps share some of your views on how you see the balance of risk to European gas prices for the rest of the year and what you're seeing in terms of demand recovery at this point?

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

Thank you very much, Henri. Yes, I mean, we have come to a very warm winter. And the gas prices have come down. Now it sort of stabilizing a little bit. But clearly, it is a market that is colored by the temperature and is also colored by the high level of inventory. So, 59% was sort of in April, which is very high if you compare it to the 5-year average. I think, still there are some -- we can talk about a few things. Maybe we can talk about sort of European demand first. I mean, clearly, we see that is down. We see industrial demand is around 15% below the 5-year average now.

And then -- but then we see some positives, because if you adjust for temperature, we see actually a 5% to 10% increase in demand over the last year, both industrial and sort of commercial as such. So, my point is sort of the European demand picture is quite a bit impacted by temperature as such. Then beyond that, China is particularly an area to follow. And Chinese -- the Chinese gas market has passed Europe market in size, meaning that actually demand growth in China is more important for European gas prices than European demand. So, watch out. And we see that is sort of ticking upwards.

And then there are a couple of other things to watch. One is sort of the sanctioning of Russian LNG and also the Russian gas coming through Ukraine, that's around 12 Bcm. The gas coming through Ukraine. That contract is sort of ending by year-end. And there were some solid remarks from Ukrainians that this is it. So, I think those are elements to watch in addition to operational disruptions either in LNG chain or in pipe gas operations. So, my point is it's sort of -- we are now entering spring and summer with solid gas storages. There are some underlying growth in demand in Europe and China. And small changes can have significant impact on price. That is still the case.

So yes. And then, of course, I can -- you all know that sort of current price level is still high in a historical setting, and we have a $2 cost of our gas supplied into this market. So, we are going to -- this is going to be a very healthy business for us, no matter what.

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

Thank you. And moving to the next on the list, that is Jason Gabelman from TD Cowen. So, Jason, please go ahead.

Jason Daniel Gabelman - *TD Cowen, Research Division - Director & Analyst*

Just one quick one for me. Looks like international E&P tax rate was pretty low for the quarter. Just wondering what drove that and what the expectations are for that segment's tax rate moving forward?

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

Very good, Jason. Thanks. Yes. So, I mean, in the U.S. segment, we reported a 25% tax rate. And we have said that we guide at around 22% to 30%. So that is sort of a normal tax rate. Where we saw this quarter deviation was with the EPI, if you look away from the U.S., where we reported a tax rate of 15%, and that is below our guided range, which is 35% to 50%.

And that is due to U.K. and assumptions related to EPL, the windfall taxes and methodology. So, I mean, we have -- we have had comments from auditors that maybe we have been too conservative in the past. Not too conservative, but that's sort of -- there's an adjustment to that going forward. That makes sense. So, we have made some adjustments for -- based on that methodology as such. So that is a one-off effect related to that. So still, you should expect tax rate to come into sort of the guided range.

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

Thanks. Thank you, Jason. Next one is Peter Low from Redburn.

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

Just a couple of quick clarifications. You talked about a 12% to 16% nominal equity return that you expect to Empire Wind 1. That's post project financing. But does that include a successful farm down? Or would that increase the returns further? And the second one was just on the $17 billion dollar kind of cash flow guidance for this year, you guys said that remains despite the change in the commodity price. Does that include any working capital? Or is that an ex-working capital?

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

Very good. Thanks, Peter. Yes. So let me just be clear that sort of the 12% to 16% does not include any future farm down. But I think it's fair to say that the 12% to 16%, that is sort of full cycle up to where we are currently. Taking into account the divestment to BP a few years back, but no future divestment and gains as such.

Then on your $17 billion or $17.5 billion dollar in cash flow from operations yes, very good that you asked that because I had told myself I need to say this on the call. It does not include working capital movements as such. This is sort of before that. So, the only place sort of in our reported numbers, where you'll see the working capital movements is sort of in the balance sheet numbers on net debt and sort of the cash position as such.

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

Thank you. Next one is Chris Kuplent from Bank of America.

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

Torgrim, you've covered a lot of ground. So let me just take the opportunity to ask you, you've streamlined your international portfolio over the last few years. And yet here we have a 10 billion perhaps more discovery in Namibia. So, I just wanted to double check how jealous that makes you whether potential opportunities for farming into those kind of discoveries. You don't have to comment on the specific data rooms, may yet add new territories and countries to your international portfolio.

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

Thanks, Chris. I'm not in -- being jealous is not part of my job description, so I'm not jealous. But clearly, congratulations to those who have made that discovery. And then hopefully, they can develop it in a good manner. So, clearly -- or what we do in our international businesses to say, okay, where do we want to deepen and where do we want to be large. And we have decided there are 3 countries that are sort of really areas for deepening. It is Brazil, it is the U.S., and it is the U.K. So clearly, there, we will be looking for opportunities to continue to build the business.

And then there are other countries still important for us, and that clearly will work and mature and optimize Angola, Algeria, as two examples. And then there are countries that we are leaving. And as you know, we have announced divestment of Nigeria business and also Azerbaijan businesses. Very good and healthy cash flows because we found it better to divest and take benefit of the price environment we are in currently and redeploy that other places in the portfolio.

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

Thank you, Chris. Next one is Nash Cui from Barclays. Nash, your microphone is open.

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

It's Nash here. Two questions, if that's okay. So, the first one is you outlined big payout this year and for next year, a drop in payout for 2026 onwards. So, I appreciate it's a long-time way. But at what point do you start to look at whether your 2026 payout can be competitive? And then, my second question is on MMP. I think, you mentioned in the presentation that MMP performance has been better than guidance, 5x in a row. So, I guess with your potential better underlying performance or better trading volume, do you expect to give an updated guidance on that?

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

Very good. Thanks, Nash. On your first question, yes, it is a significant payout this year and also next year. The way we want to communicate around our capital distribution is that we want to have ordinary cash dividend that you can bank that is there and it will grow by $0.02 on an annual basis. In addition, there will be sort of a $1.2 billion share buyback that will be sort of the run rate that you should believe that comes on a steady basis.

And then on top of that, we aim to use share buyback to sort of increase or adjust sort of the capital distribution. So clearly, we are very determined that we are going to provide you with a competitive total capital distribution package going forward. We have now given you sort of outlook for 2 years, and that is sort of what is out there. I think, it's also very important for me to say that, that this is a high priority for us as a company, and we do have a significant flexibility in our investment program to adjust our spending and adjust our activity to find a good balance between serving all purposes as such.

On your second question, whether we want to update the guiding on MMP, the answer to that is no. We are not. This is -- was recently updated, and I'm glad to see that the business is performing well and in a predictable manner, but we have no plans to update the guiding.

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

Thank you, Nash, and thank you, Torgrim. We are fast approaching the hour, and I know it's a busy day for all of you. So, I want to thank you all for calling in and for asking questions. As always, the IR team remains available if you have additional follow-up after the call. So, with that, I wish you all a good rest of the day. Thank you all.

Operator

Thank you. This concludes today's conference call. We thank you for participating, and you may now disconnect.
