REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EQNR.OL - Q3 2024 Equinor ASA Analyst Conference(Q&A)

EVENT DATE/TIME: OCTOBER 24, 2024 / 9:30AM GMT

CORPORATE PARTICIPANTS

Bard Glad Pedersen *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Torgrim Reitan *Equinor ASA - Chief Financial Officer, Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Biraj Borkhataria *RBC Capital Markets - Analyst*

Teodor Sveen-Nilsen *SpareBank 1 Markets - Analyst*

Martijn Rats *Morgan Stanley - Analyst*

Henri Patricot *UBS - Analyst*

Alastair Syme *Citi - Analyst*

Alejandro Vigil *Banco Santander - Analyst*

Yoann Charenton *Bernstein - Analyst*

Lydia Rainforth *Barclays - Analyst*

Giacomo Romeo *Jefferies - Analyst*

Michele Della Vigna *Goldman Sachs - Analyst*

Kim Fustier *SEB - Analyst*

Matthew Lofting Lofting *JPMorgan - Analyst*

Anders Rosenlund *SEB - Analyst*

Peter Low *Redburn Atlantic - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Equinor Analyst Call Q3 Conference Call. (Operator Instructions) And finally, I would like to advise all participants that this call is being recorded. Thank you.

I'd now like to welcome Bard Glad Pedersen, Senior Vice President of Investor Relations, to begin the conference. Bard, over to you.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Thank you, operator, and good morning to all. I'm here together with Torgrim Reitan, our CFO. As usual, he will take us through the numbers, and then we will open for questions and answers. So with that, I hand it over to you, Torgrim.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Thank you, Bard, and good morning, everyone, and thank you for joining. Before we go into the results, take a look at the photo of Johan Sverdrup. It's a truly remarkable asset. After five years in production, it has now produced more than 1 billion barrels. It continues to create significant value and cash flow quarter after quarter, and total revenue is already higher than $80 billion.

On the 21st of September, we set a new record with over 756,000 barrels of oil produced. We optimized water management and continue to drill new wells, and this has helped to extend the plateau into next year.

Now let me dive into the numbers. Today, we deliver solid financial results and operational performance in a quarter with extensive turnarounds. We report adjusted operating income of $6.9 billion before tax and an IFRS net income of $2.3 billion. Year to date, we have delivered cash flow from operations after tax of $14 billion. We are on track to deliver in line with what we said at our capital markets update in February.

Our adjusted earnings per share came in at $0.79. We saw an all-time high production from Troll in the gas year ending in September. We have done improvements and debottlenecking across the gas value chain for many years, ensuring reliable supply of natural gas to Europe. And this has created quite a bit of added value from increasing gas prices in this quarter.

Johan Castberg, as you see on the slide, is on location in the Barents Sea, on track for production start-up by end of the year. In September, the Northern Light facility was completed on time and on cost and is now ready to receive CO2.

We recently announced that we have acquired 9.8% in Orsted. This is an important transaction. So let me share a few thoughts. This is a good time for a transaction like this. The offshore wind industry is facing challenges, and this is also reflected in the market value of Orsted.

As an offshore wind developer ourselves, we know this and what it takes to resolve it. As such, this is a countercyclical investment, and we do know how important it is to get timing right. Offshore wind will play a crucial role in the energy transition, and we have a long-term industrial perspective. We see Orsted as a leading developer with a high-quality portfolio of producing assets. This complements our own ongoing offshore wind projects in the US, UK and Poland. These were accessed early at low cost and deliver competitive returns on equity.

We continue to focus on value over volume and our renewable strategy stays firm. We will not overbid in lease auctions, rather we will be value-driven and flexible in our approach. This acquisition requires significantly lower CapEx than organic opportunities, and it supports our renewable ambitions towards 2030. So this transaction is not in addition to our existing plans.

Our near-term CapEx is defined by projects in development, but towards 2030, this transaction will help us progress towards our ambitions with lower CapEx spend. The Orsted transaction is also done within our financial framework and has no implications to our communicated capital distribution program.

Today, we are delivering on what we said at the CMU with competitive capital distribution. For the quarter, the Board approved an ordinary cash dividend of $0.35 per share and $0.35 in extraordinary dividend. And the fourth tranche of share buybacks of $1.6 billion is starting tomorrow. In total, we are delivering what we said, $14 billion in capital distribution for the year.

Safety remains our top priority. This week, we had an incident on Sleipner B, an unmanned platform in the North Sea. We take an incident like this very seriously and are well prepared to handle it. Gas production was shut down and our emergency preparedness organization mobilized. This incident will also be investigated to understand root causes and to ensure learning.

In the quarter, we had high activity with extensive turnarounds while maintaining strong safety results. We continue our efforts to ensure that all our people return safely home from work every day.

So over to production. On the NCS, we had strong operational performance and the planned high turnaround activity was well executed. Total NCS production was up 2% from the same quarter last year. The increase in gas production was 8%, driven by high gas production from Troll and good contributions from Aasta Hansteen and Oseberg. The ramp-up of new fields like Breidablikk and Hanz also contributed.

For E&P International, production was also impacted by turnarounds, mainly at Peregrino, partly offset by new wells in Angola. For E&P US, liquids production was impacted by shut-ins due to hurricanes in the Gulf of Mexico and well workover at the field Caesar Tonga.

Renewables production is significantly higher than last year, mainly driven by onshore power plants in Brazil and Poland. For Dogger Bank A in the UK, the operator for the development phase now expects full commercial production during the second half of 2025. It impacts our production outlook this year, and I will revert to this.

Now to our financial results. Liquids prices declined during the quarter and were lower than last year. At the same time, European gas prices were up 14%, driven by increased gas demand from growing economies like China, higher political risk and supply disruptions. As expected, storages in Europe are almost full, but the market remains fragile and small events can give large fluctuations. As we approach winter, European demand will again depend on weather and temperatures and with a normal or cold winter, there will be upward pressures on prices. LNG demand in Asia and Russian volumes through Ukraine will also impact prices, and in addition, there is significant uncertainty related to the timing of new LNG projects coming online.

This quarter, we had strong gas production on the NCS and captured high prices, delivering adjusted operating income of $5.9 billion and $1.3 billion after tax. Our international E&P segments combined, delivered more than $600 million in adjusted operating income and almost $500 million after tax. Lower liquids production and exploration expenses impacted the results.

Our MMP results were driven by strong LNG and power trading, and our ability to capture geographical arbitrage in LPG through our shipping fleet. Since third quarter last year, adjusted OpEx and SG&A is up by 3%. The underlying cost increase is somewhat higher due to currency effects and some one-offs. And we continue to maintain a strong focus on cost control and capital discipline.

This quarter, our cash flow from operations was more than $6.2 billion after tax. We paid on NCS tax installment of $2.9 billion. But next quarter, we will pay two installments. We distributed $6.5 billion to our shareholders in the third quarter. But remember, this included the annual payment of the state's share buybacks of around $4 billion.

Organic CapEx was $3.1 billion and $8.7 billion year-to-date. After tax, capital distribution and investments, our net cash flow was negative $3.4 billion as expected. So we have a solid financial position with over $30 billion in cash and cash equivalents, and our net debt ratio increased to negative 2% this quarter.

As we indicated at CMU, we expect the net debt ratio to move into positive territory by year-end. And the impact of the Orsted acquisition will be around 5%.

Finally, to our guiding. We guided on $13 billion in CapEx for 2024. We now expect to come in on the downside and are therefore adjusting our guiding to $12 billion to $13 billion. This is due to phasing of project spend towards year-end, adjustments within onshore renewables and currency effects on our NCS projects. There is no change to our guiding for oil and gas production. But as we have said previously, there is more risk to the downside related to curtailments from US onshore operators. We have adjusted our renewables production guidance to grow by around 50% this year, mainly reflecting the progress on Dogger Bank.

So now back to you, Bard, and then I look very much forward to your questions. So thanks.

QUESTIONS AND ANSWERS

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

(Operator Instructions) Biraj Borkhataria, RBC.

Biraj Borkhataria - *RBC Capital Markets - Analyst*

Thanks for the comments on Orsted in particular and the intention there. I'm just wondering how we should think about the 12 to 16 gigawatt target that you've previously put out? Based on your comments around development costs going up and obviously your commitment to return, it seems like it's going to be tougher to get to that amount and stick to the returns criteria, unless you were to use the other option, which is to buy more Orsted. So how should we think about that target in the context of the recent move? And then second question, just on Empire Wind. Could you just update us on the progress on project financing and when that is expected to close?

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Thank you, Biraj. Important questions. So just let me put sort of Orsted into the context of our deliveries on energy transition in general. But first, we do like the company. We want to be a part of it, and we are supporting of their strategy and their management. And we see this as a good time to go into it.

It is as we sort of are very much into the reality of this industry, we see that sort of making a transaction like this is we get access to offshore wind projects at a much more reasonable price than actually building things from scratch for the time being. So what we currently are doing is that we are continuing with sort of the three developments that we are developing, Dogger Bank in the UK, Empire in the US and Baltyk in Poland. So those will be important part of the delivery over -- towards 2030.

Beyond that, we do see that this investment in Orsted replaces investments that we could do organically as such. So this will be an integrated part of our delivery towards 2030 and sort of what we have said there.

However, I would like to qualify that even more. I mean 12 to 16 gigawatts, it's not a target. It is our guiding for what we think we can deliver. But you need to -- I really would like to leave with you that value creation trumps volumes. So value creation over volume is very critical.

And we are happy to let it go or delay it if we don't see the sufficient value creation. So I hope you all can see a little bit of a pattern in what we do in sort of trying to get timing right within offshore wind. We have entered early at low cost. We have divested in sort of when prices were high, and we are taking the opportunity to get access to 10% of Orsted at a reasonable price. So getting timing right is clearly a very important.

On sort of, you had a question, Biraj, on more Orsted. So we have now bought 9.8%. We are applying for foreign investment approval from the Danish government, and then we have that in place, we will increase to around 10%. And beyond that, there are no current plans to do more.

On your point on -- question on Empire Wind, yes. So 2024 is the year of derisking that asset. And what we have done so far, we have got a new contract, price contract in place. Price has increased from $118 to $155 per megawatt hour. We have completed permitting and are well underway in sort of developing it.

And we are now approaching financial close of the project. So we expect that to be a few weeks down the road and happening before year-end as such. So then that asset will be derisked.

I also said or we also said at the capital markets update in February that we intended to farm down Empire Wind, and that is the plan to farm it on for the second time. And when that is done, CapEx related to Empire Wind will go significantly down such an impact CapEx going forward. That was a long answer, Biraj, but you had three very important questions.

Biraj Borkhataria - *RBC Capital Markets - Analyst*

I appreciate it. Thank you.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Teodor Sveen-Nilsen, SpareBank 1 Markets.

Teodor Sveen-Nilsen - *SpareBank 1 Markets - Analyst*

Good morning to all of you. Yes, I think regarding Orsted, it was a very good answer, so I don't want ask more about that. I'm wondering on the gas market now. We see pretty healthy long-term gas prices or at least a [prevalent] $12 to $13 per MMBtu. I just wonder are you tempted around hedging some of the gas sales or selling on fixed price contracts.

So that's the first question.

Second question that is risk on production guidance for the full year for the oil and gas production. Torgrim, you said that there's some downside risk and you said the same in the second quarter presentation. I just wonder how you view that risk now compared to three months ago, it looks like some of the production maybe has come up again. Any comments around that would be useful.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

All right. Thank you. Thank you, Teodor. So gas prices are currently, as you say, around $13 per MBTU and sort of in line with what we have sort of believed as sort of the price for this year. And maybe a few reflections on the level because, I mean, it was a warm winter, and we are working with very high gas storages. And still, the price is at sort of $13 per MBTU. So it's sort of clearly tells a story about a vulnerable situation in the gas markets as such.

So the moving parts to watch out for here is clearly Asian demand for LNG. And remember, 50% of gas needed in Asia needs to come from import, same as in Europe. So Europe and Asia will compete for this, and we see a growing demand, particularly from China this year, and we see that continue with around 3% per year all the way to 2030, actually. So that's clearly one thing to watch. The second one is weather, we all know about that. And a normal winter would actually leave gas storages around 40% full in April compared to 60% this year as such. So that will have an impact on prices during the winter. And then, of course, Ukrainian gas and operational issues, of course.

On your question specifically, no, we're not going to hedge. I want our owners and investors to get the exposure to European gas when they buy the share with us. And as you know, we keep our exposure at 70% day ahead and 30% month ahead. So if you see volatility in the European gas prices, you can rest assure that it translates into earnings with us. And very important for us that we keep the machine ready to manage this.

We have increased production capacity in the Troll gas value chain. We have access to all their landing points. And we have a trading organization that is ready to take out any arbitrage opportunities that may arise. So we are not planning to hedge. We want you and other investors to have the full exposure to the value creation opportunities that comes from volatility.

There was one more, sorry. Yes, yes, yes. So yes, there are still some uncertainty on curtailment in the US, so that might have impact on gas production in the US. I think it's fair to say that with the current gas prices in the US, they are up a little bit, but the earnings impact is less than sort of gas production on the NCS for the time being. There is a little bit downside compared to what we have guided, but we have decided to keep it in a way, the stable production as we call it.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Martijn Rats, Morgan Stanley.

Martijn Rats - *Morgan Stanley - Analyst*

Two questions if I may. I was hoping you could give us an update on the Rosebank project. I understand there is a court case going on. And also, I was interested in your latest view with regards to the tax treatment. So if you could say a few words about that project, that would be great.

And the second question I wanted to ask relates to CapEx. Of course, there is a small tweak downwards for this year. I guess we'll have to wait for a fuller update for your full year results announcement. But I was wondering if in the comments that you made, we could also start to expect that this tweak downward for 2025 would roll over into -- sorry, for 2024 would roll over into future years into 2025 and beyond. I was hoping you could say a few words about that.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Martijn, thank you very much. So on Rosebank, it is, at the outset, a good and robust project. It is a very important project for the UK, 1,600 jobs and actually GBP 24 billion in economic impact. So for the UK, this is -- it is a very, very important project, both from an energy security point of view and also for economic activity over there. So -- but clearly, there are uncertainty related to the project.

And let me first talk about on the tax side. As an investor, it is very important to us to have stable tax conditions and predictable conditions. So what has happened lately, we see that clearly as negative and increases the risk of investing in the UK. There is when it comes to the EPL, labor has announced that they want to increase the rate by 3 percentage points and also extend the time of the EPL a little bit. So that is something that we are aware of.

What we do see in sort of the earlier statement is that they are not going to change capital allowance, which is very important for investors in the UK. So -- but we have to wait until 30th of October when the budget is released, and there will be clarity around this, but the decision and what comes through the budget will define the attractiveness of future investments in the UK. So that's on the tax side.

On the legal case, there is a judicial review related to Scope 3 emissions related to the assets and the permitting given where the court decided that that was not sufficiently taken care of. So we are awaiting clarifications on that to proceed. And we do believe we will get that. And that we will be able to continue with the project under the same assumption that we have done earlier. Expected start-up of Rosebank is in 2027.

Then your second question was on CapEx. Yes, so we are taking down the guiding from around $13 million to between $12 million to $13 million. So there are three elements there. One is sort of some phasing of the CapEx. But in reality, just payments that are coming sort of a little bit later in the life of the project than earlier.

It is related to currency changes, currency impact because the Norwegian projects have a certain Norwegian kroner content. And as that has weakened, it sort of reduces the CapEx. And the third one is lower investments related to onshore renewables. So these are three elements that sort of play into this. So sort of the phasing of investment is not a very significant part, I mean, it's a one of the three elements here, and sort of it is not unheard of or strange, we see that clearly from time to time, that phasing of payments differs. So there's no drama around this at all. And we will give an update, as you say, in February on the capital markets day on how we see the coming years on investments.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Henri Patricot, UBS.

Henri Patricot - *UBS - Analyst*

I have two questions, please. The first one, just on results in the third quarter and cost with the unit cost in E&P US international moving and you mentioned it was the impact of maintenance in the quarter. I wanted to get a sense of how much of the cost increase was driven by these kind of one-off effect or if there's -- and what's the share of the structural, let's say, cost increase?

And then secondly, going back to the Johan Sverdrup comments, you mentioned the record production recently and the field coming off plateau from early next year. Can you share any more details on what you expect in terms of your ability to slow down the pace of the decline next year and beyond. Anything that you could say would helpful.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

All right. Henri, thank you very much. So first, on costs. So cost discipline and capital discipline is very, very important to us, and we work that very hard. So -- but clearly, we're not immune to inflation as such.

On a group level, we see growth in OpEx and SG&A of 3%. There are sort of the underlying cost increase is somewhat higher due to some one-offs in a way like underlift and also on the currency side and also some removal costs in there. So I mean, but it's fairly stable, I would say.

You had a specific question on the US cost, we see that OpEx and SG&A there is [up 7%] (corrected by company after the call) compared to last year, and that is due to [seismic purchases, one-off project expenses,and higher onshore properties taxes , partially offset by higher turnaround and maintenance cost] (added by company after the call) and linked to sort of volumes that are sort of lower this quarter. I think in general, cost levels this quarter, if you measure it on a per barrel level, we have had a massive turnaround program, 104,000 barrels per day in the quarter. And that has, of course, attracted the costs, and that is impacting this quarter cost. And if you divide it by barrels, sort of it is there. But you also see that there is a stable unit production cost. So we worked this very hard.

Your second question, Henri, on Johan Sverdrup. Yes. So far so good. We see that we are now in a position where we can say that the plateau, we will be on plateau until early 2025. I think it's very important for me to say that we are not surprised at all that we will come off plateau in 2025.

It is a function of that we have invested in higher capacity, the 755,000 barrels per day, pushing cash flow and net present value higher, and that leads to that we will get of plateau earlier. So this is as expected, but we actually are able to extend it somewhat.

A couple of things here. I mean, optimizing recovery rates and the reservoirs, that is really, really the core competence of this company, something that we have done for 50 years across the large assets on the shelf. So this is about optimizing water management. It is about drilling capabilities, reservoir management and doing 4D seismic to really, really understand how everything works. So a little bit of status on what we're currently doing.

We are drilling. So by year end, there will be 40 wells producing. Next year, we will start to retrofit some of these wells into multilaterals, I mean taking one wellbore and then use that to spread into more. And we are also working on Johan Sverdrup phase 3 , where we expect to take what we call a DG2 towards the end of this year and maybe a startup of that towards the end of '27. So this is as expected.

We are working this, of course, hard and applying all the competence we have in the company into this field. It is producing 756,000 barrels per day on maximum. And just to put that in context, it's almost 1% of global supply on a daily basis from one asset on the NCS. So that just gives you a little bit of sense of the size of it, and you might hear a little bit of proudness in my voice saying that. So -- but thanks, Henri.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Thank you, Henri. Alastair Syme in Citi is next. Alastair, please go ahead.

Alastair Syme - *Citi - Analyst*

Look, I'm sorry to come back on Ørsted, but it is just so important. As I understand that you've gone through a strategic review on the renewables business, you followed the lead of what you did on FLX and you physically moved that business outside of HQ to force it to be more competitive. Can you talk about how the decision to invest in Orsted has really come about from the strategic review?

Acquisitions in my experience, are normally done because companies feel they have a shortfall in portfolio or expertise. Kind of what is it? I'm just trying to connect the dots between where Equinor thought it was 12, 24 months ago and where the strategy seems to be now?

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Thanks, Alastair. So we are very much driven by that the investments and the strategy that we pursue needs to create value for our shareholders. That is sort of where it all starts. And typically, the way we do that is that we operate, develop and put into production assets like we are now doing with sort of Empire Wind, Dogger Bank and Baltyk.

So that is sort of the main model of value creation. And all of these three are delivering attractive equity returns on the money that we invest. But from time to time, we see that there are opportunities to do something differently, and that is what we also see here where there is a way to build and deliver on the strategy in a more value creative way.

We see that for the time being, it is very expensive to acquire seabed leases. There is very high inflation within the renewable business and there are clear bottlenecks in the supply chain as such. So comparing that with acquiring 10% in Orsted, Orsted is clearly coming across the better way to deliver on the strategy and deliver on the growth over the next few years. But I think it's also very, very important to get the timing right. And we have time to wait for better investment climate in some of the offshore wind opportunities.

It will come, but for the time being, we are doing some changes organizationally to focus our business development activity to reduce our cost levels and set ourselves up for playing this in the long run as such. So that's sort of the thought process going into this. Yes.

Alastair Syme - *Citi - Analyst*

So Torgrim, can I just ask you, obviously, an alternative would have been not to make the investment in Orsted at all? So I get the comparison versus organic seabed leases, but there could be an alternative to say, okay, we're not going to make this acquisition, and we'll just -- we'll do a pause on the renewable strategy overall.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Thanks, Alastair. And then clearly, when we do see a good investment opportunity, we do like to pursue it as well. And sort of the challenges that the offshore wind industry is currently living through has been reflected in the share price of Orsted, and we see this as a good time to take a 10% share in the company. We have a very long-term sort of perspective on that investment, and we are very sure that, that will deliver good value to our shareholders over time.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Alejandro Vigil, Santander.

Alejandro Vigil - *Banco Santander - Analyst*

Yes. The first one is, again -- sorry, about the Orsted. In the comments, you are talking about that Orsted optionality is cheaper than investments in greenfield projects. That's interesting. But is there any conversations or projects ongoing to develop together with Orsted and some projects, Orsted has a very big pipeline of projects could be interesting as well. So that will be the first question.

And the second question is about, in general, I am looking at your comments about uncertainty on the offshore wind, also the possibility of some delays in projects like Rosebank, all the roads lead to higher distributions next year. Can you elaborate on the outlook for '25 share buybacks also looking at your strong balance sheet? That will be the question.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Alejandro, thanks. Yes. So around 10% in Orsted. That's sort of what we have done.

And sort of there are no further current plans. And that also covers doing projects together as such. So we will operate as two separate companies and do that. So there's no plans for that.

On your question on if there is an outlook for an attractive capital distribution next year. The answer to that is yes. We have said that next year, you should expect capital distribution to be between $8 billion and $10 billion, where the composition is a cash dividend of $0.35 per share. We have said it's going to grow with $0.02 per year. And on top of that, a share buyback between $4 billion and $6 billion.

So that is what we have said. And this is something that we have clearly tested against all price scenarios and all of that. So you should consider that as an important commitment from our side. Beyond that, it is very important to us to be able to provide our owners with an attractive capital distribution, but this is not a time and place to talk about that. But next year, $8 billion to $10 billion.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Yoann Charenton, Bernstein.

Yoann Charenton - *Bernstein - Analyst*

Yes. It looks like the net debt ratio will not have turned positive by year-end 2024, which is your guidance without this Orsted deal, which you said will have a roughly 5% impact on the net debt ratio. As such, are you able to comment on the implications this had from an M&A perspective and especially in terms of budget that was made available to your M&A activity from this side perspective, and ultimately was turning into a net debt position by year-end the financial year's most important guidance item from your perspective as the CFO.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Can you repeat the final sentence, Yoann? It was a bit hard to hear.

Yoann Charenton - *Bernstein - Analyst*

Sure. So final sentence is ultimately when thinking about the question I just raised was this expectation of turning into a net debt position by year-end, the most important guidance item as part of this year guidance from the perspective of the CFO.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Okay. Thanks, Yoann. So what we said at the beginning of the year was that we expected net debt to move into positive territory by year-end, and that was without taking into account an Orsted acquisition. And this is still valid.

So this year has developed according to plan and according to what we said at the Capital Markets Day, both on cash flow from operations and also from a net debt perspective. On top of this, the Orsted acquisition will add around 5 percentage points, the net debt.

I think it is important for me to say that when your net debt ratio is around zero, it becomes very volatile. So small changes can actually change the percentages a bit. But that's all of the best guiding I can give for the time being, that is 5% related to Orsted. Then I would say that going forward, it is important for us to run with a conservative balance sheet and a conservative financing. And that is, of course, to be prepared for volatility going forward.

We have talked about higher prices, but of course, we cannot exclude a lower prices and sort of managing the balance sheet is an important part of doing exactly that.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Lydia Rainforth, Barclays.

Lydia Rainforth - *Barclays - Analyst*

Two questions, actually follow up on what we've already had. But just going back to the balance sheet, obviously, I take your point that sort of you move into a slightly net debt position towards the end of the year. But where is the balance sheet now versus where you thought it would be at the start of the year? Because clearly, I think prices of both oil and gas have been a little bit better than you thought the CapEx guidance has come down a bit. So it's just kind of where you are versus where you thought you would be at this stage?

And then if I come back to the Orsted, sorry to reverse to this point, but it doesn't actually give you cash at this point because you don't have the dividend. So when you're thinking about this investment, is this idea that you become a long-term shareholder and that this is something you want to hold for the next 5, 10 years? I'm just trying to understand kind of where -- about the point of there was probably other things you could have spent $2.5 billion on versus this. I`m seeing this as something that doesn't give you cash near-term. It's something I'm still a little bit confused about that capital allocation cycle. So sorry to be over (inaudible) those two points again.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Thanks, Lydia. So the balance sheet is developing according to what we believed in the beginning of the year. Prices have been a little bit up and down. Gas price has been sort of a little bit lower and also oil prices, but then we have seen sort of a reduction in working capital as well as a function of lower prices. So those things hang together. So I would say that we are actually pretty spot on what we believed in the beginning of the year.

On your last question, Lydia, the cash flow, yes. So Orsted is currently in a sort of what they call a dividend holiday. I think clearly, it will be for the Orsted management to speak to how they think about that. And -- but to be more precise on your question, yes, we are a long-term holder of shares in Orsted. We know the issues within the industry fairly well, I dare to say.

We have a trust in that management will deal with those in a very good way. And we're also very certain that Orsted will come out as a strong company when things normalize in this industry and a leading company as such. And therefore, we do see a good value creation opportunity as a shareholder.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Giacomo Romeo, Jefferies.

Giacomo Romeo - *Jefferies - Analyst*

Yes. And apologies, I have to ask again about Orsted. First question is about your comment you had in the press release a few weeks back, you mentioned that you won`t seek board representation. This is obviously a sizeable investments. You talked about the importance of getting timing right in investment in projects.

Orsted doesn't have the best track record in terms of execution and management has been volatile. Just wanted to understand why you think it wouldn't be helpful to seek a board representation.

The second question is, as you are aware, there are some concerns around Orsted ability to fund its growth portfolio. Will you consider injecting equity towards Orsted if needed at some point in the future? You ruled out plans to do further investments in Orsted, including doing projects together, but does that include the potential for additional funding in the future?

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Thanks, Giacomo. Yes. No. So we are now a shareholder of 9.8%. And we are -- after approvals have been given, we are going to be around 10%. So -- and we are a long-term holder of shares and we have not been seeking Board representation as part of this. And there are no current plans to do that either. But clearly, we know the company well. We know the management well and also.

So I mean, clearly, there is natural to have a dialogue with management around topics as a shareholder. That's like everyone else are having. Then on your last question, Orsted, ability to finance. I would advise to ask the Orsted management around their outlook for that. And I think that's sort of the place where those questions needs to be managed as such.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Michele Della Vigna, Goldman Sachs.

Michele Della Vigna - *Goldman Sachs - Analyst*

Thank you very much. Torgrim, congratulations on getting Northern Light on stream. I was wondering in terms of your future carbon capture strategy, you are one of the leaders in the industry, where do you see the most attractive returns from here? Is it in the US with the IRA and the huge network of industrial plants, especially on the [Gulf] Coast? Or do you see it in Europe with effectively further expansion in Norway?

And then if you forgive me one more question on Orsted. When I think back to the very successful investment you did at the time in Lundin, you ultimate exchange is part of that stake for an asset, which was more ownership in Johan Sverdrup, which proved to be the right choice. I'm wondering, is there any plan here to farm into some of Orsted assets, are some of those assets potentially interested to you or it's more just about thinking about the value of the overall company as a long-term investor.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Thanks, Michele. So first, on Northern Lights, yes. So that is now ready to receive CO2, and we are glad to see that, and it will be an important project for establishing CCS value chains. Then we do see that the CCS strategy is moving forward in a very positive manner. And I would actually say that the speed within CCS is very different than hydrogen. So hydrogen is slowing down while CCS is moving forward.

Your question was where we see sort of attractive returns. And we do see that in the US, and we also see that in Europe, clearly. In the US, you have a lot of single point of emissions very closely located and also very close to reservoirs where we can store them. And we have a storage position there in the Bayou Bend, which we see clearly gives attractive returns.

On sort of CCS or the CO2 highway, as we call it, from the European continent to the Norwegian continental shelf, that is also progressing. Currently, we have the Smeaheia reservoir with capacity to inject maybe 20 million tonnes per year and also the plan for building this pipeline from the continent, which also can transport 25 million to 30 million tonnes per year. That will be a 1,000 kilometer pipeline, by the way. And this is progressing, and we expect our pipeline like that to be on stream and operating around 2030.

So this is a value chain that doesn't need very much support to really get going, and we do see that this is a place where we can gain attractive returns and when sort of value chain like this is built, clearly, that creates a lot of opportunities to further value creation as well. So we are optimistic, different mechanisms in Europe and the US, but we do see attractive returns in both places.

On your last question, I'm sorry, Michele, I'm going to give you a very boring answer, and that is that we have acquired 10% share in Orsted and there are no current plans to do anything else.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Thank you, Michele. We are fast approaching the hour, but we'd like to cover as many as possible. So if I can ask you to limit yourself to only one question, please.

Kim Fustier, HSBC.

Kim Fustier - *SEB - Analyst*

I'll keep it to one then. I just wanted to ask about the recent cancellation of the blue hydrogen project and hydrogen pipeline to Germany with RWE. Could you maybe talk about why the project wasn't viable? And what is next for your hydrogen plans?

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Thanks, Kim. Yes. We do believe that blue hydrogen is going to be very important for Europe. And we also do believe that needs to be significant before any green hydrogen can actually be viable as such.

For a blue hydrogen value chain to work, there are three things that really needs to be in place. One is there needs to be an economic framework for investing into it. The second is there needs to be a customer base. And I would say actually a significant customer base to lift an investment like this. And the third one is actually a well-functioning market to do that.

And I'm sorry to say, none of these are in place sufficiently to justify an investment like this. So that is the reason that things are going slower than we had hoped. And we think we are all better in actually maybe thinking are there different ways of creating a blue hydrogen value chain in Europe.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Matt Lofting, JPMorgan.

Matthew Lofting Lofting - *JPMorgan - Analyst*

Torgrim, I wonder whether you could just talk about the extent to which Orsted marks a broader and structural shift in Equinor's strategy and capital allocation to buy overbuild in the extent to which that could be applied more widely now across its low carbon and renewable growth?

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Thanks, Matt. So first of all, there are no current plans to do more. We are a 10% holder of shares. But on your question, I can answer that more generally. And that is that sort of the energy transition, whether that is sort of within renewables and low-carbon solutions, typically will take a different approach to how we own, finance and govern those businesses and assets.

And you have seen us acquiring companies like Rio Energy, like Vento, like Noriker and a few others. And Danske Commodities, of course, and BeGreen so it is a more complex picture in the way we want to own and govern these businesses as such. So if anything, there's a trend there.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Anders Roslund, SEB.

Anders Rosenlund - *SEB - Analyst*

It's Anders here from SEB. Torgrim, you are working for the company, and the company is working for the shareholders. So I was just curious if you could say something about the feedback the company has received from various stakeholders, preferably shareholders after the acquisition of Orsted, whether it's in general, is positive or whether you received questions that you didn't expect before making that investment.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Thanks, Anders. So clearly, I spend quite a bit of my time on the road, meeting investors across Europe, US and other places. And it would be wrong for me to sort of go into any details here. But I think it's fair to say that there are different views on this acquisition.

Some take the view that I can buy this stock myself or they are clearly curious about what is this, and others that this is probably a good opportunity to differentiate your delivery model for the energy transition. So I don't think I want to go further on that. But clearly, it has triggered a lot of interest and discussions.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Thank you, Anders. We have passed the one hour mark, and I want to be respectful of everybody's time.

Peter Low, Redburn.

Peter Low - *Redburn Atlantic - Analyst*

Yes, earlier this month, you announced some increases in CapEx or some of your projects, Johan Castberg, Oseberg, and Snohvit future. Your CapEx guidance for the year has actually come down. Can you just perhaps help explain kind of the moving parts there? I know you mentioned currency and phasing, but yes, any extra color would help.

Torgrim Reitan - *Equinor ASA - Chief Financial Officer, Executive Vice President*

Okay. Thanks, Peter. Yes, so we give an update to all the Norwegian projects in the national budget filing. And thereis sort of further transparency on that. And there are some projects, as always, that have a slight increase in CapEx and there are others that have lower CapEx as such.

So the portfolio level, the sanctioned project portfolio is fairly stable as such, and that is also reflected in our CapEx guiding as such. So there is no sort of trend or significant elements in that as we see it.

Bard Glad Pedersen - *Equinor ASA - Senior Vice President Equinor, Head of Investor Relations*

Thank you, Peter. Thanks, Torgim, and thanks, everybody, for calling in. I'm sorry we did not get full list, there was a lot of question, but IR team remains available. So if you have follow-up questions, please give us a call in the afternoon. Thank you all for calling in this morning and have a good rest of the day.
