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EQNR.OL - Q1 2021 Equinor ASA Earnings Call

EVENT DATE/TIME: APRIL 29, 2021 / 9:30AM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome, and thank you for joining the Equinor analyst call Q1. (Operator Instructions) I would now like to turn the conference over to Mr. Peter Hutton, Senior Vice President. Please go ahead.

Peter Hutton - *Equinor ASA - SVP of IR*

Hi, thanks. And thanks, everybody. Welcome to the Equinor call, as you heard, for the first quarter of 2021. I'm pleased to welcome Svein Skeie, acting CFO, who will present the results for around 15 minutes and then we will move to the Q&A. The call will last for a maximum of 1 hour. I know there are a number of companies reporting today.

Also joining the call, we have: Ørjan Kvelvane, Head of Accounting; Rune Karlsen, acting Head of Performance; and Mads Holm, Head of Finance. And with that, let me pass immediately over to Svein to start the presentation. Many thanks.

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Peter, and good morning, everyone. I very much appreciate you joining us, especially on what we know is a busy day, as Peter said. Today, we present our best quarterly results since 2014. This is, of course, driven by better commodity prices. But we also capture value from strong operational performance, continued cost improvements and strict capital discipline. In 2014, the oil price was close to \$100 per barrel. We now deliver results at the same high level with an average oil price of around \$60. We booked gain on divestments within Renewables. And we are, of course, also helped by Johan Sverdrup's major contribution to these results.

A year ago, we saw rising uncertainty in the markets, and we implemented our operational and financial contingency plans. Now we see a clear improvement in the world economy and some countries are starting to reopen. However, in other areas like Brazil, where we have large operation, the situation is still very demanding and unpredictable. The status on infections and restrictions also affect manning at construction yards in several countries and may have further impact on the progress of our projects in execution. But I continue to be impressed and grateful for all our employees and suppliers, who have kept our operation running safely, supplying energy to people around the world during these difficult times.

The Troll A platform has provided enormous amount of gas to Europe, delivering a total of more than NOK 1.6 trillion in revenue to date. And still, we expect the remaining potential to be significantly above this. Last week, we delivered the plans for the full and partial electrification of the Troll B and the Troll C platforms, cutting almost 500,000 tonnes of CO₂ per year from 2024 and onwards. Troll 3 will start production this autumn, adding a total of more than 2 billion barrels of oil equivalent and at a breakeven below \$10. And for 3 of our commercial discoveries in the first quarter, tieback to Troll B or Troll C is an option.

The same technology used to build the enormous Troll A structure is now being developed to build the 100-meters-tall spar substructures for the 11 floating wind turbines of Hywind Tampen. This is a great illustration on how we exploit value-creating synergies between offshore, oil and gas and offshore wind. Hywind Tampen will be the world's largest floating wind farm, providing electricity for the 5 Snorre and Gullfaks platforms and is an important step in commercializing this technology.

We also continue to mature our offshore wind project in the U.S. During the quarter, Equinor and our strategic partner, BP, were selected to provide renewable energy to the state of New York from our assets, Empire and Beacon Wind. We completed the divestment of 50% of these wind assets in the quarter as well as the farm-down of the 10% of Dogger Bank A and B and booked an aggregated gain from renewable transactions of nearly \$1.4 billion.

The Board of Directors has increased the dividend for the first quarter '21 to \$0.15 per share, up from \$0.12 last quarter. This is consistent with our statements that the Board will assess the dividend on a quarterly basis, reflecting assessments of the company's financial position and funding requirements, investments in our competitive portfolio, the market conditions and the commodity price expectations.

Before discussing our safety performance this quarter, I want to remember our 13 colleagues and friends, who 5 years ago, on April 29, lost their lives in the Turøy accident on their way home from the Gullfaks B platform. Our thoughts go to the families.

The safety and security of the thousands of people working at our plants, projects and offices and the integrity of our operations is Equinor's top priority. The fires at Hammerfest LNG and Tjeldbergodden last year were fortunately without personal injury. But we see these as serious incidents. And after the fires, we have started several initiatives to improve on safety across the company. We will learn from previous incidents to avoid new ones. For the last 12 months, we reported a serious incident frequency of 0.5 and a total recordable incident frequency of 2.3 per million working hours. This is an improvement from the first quarter of last year.

And now on to our financial results. The financial results this quarter reflect the increase in oil and gas prices. Our realized liquids price was up 28% and invoiced European and U.S. gas prices, up 64% and 46%, respectively. Underlying upstream operating costs were down 4% in the quarter. The continued cost control and solid operational performance position us to capture value from the price increase. IFRS net operating income was \$5.2 billion and net income, \$1.9 billion. Adjusted earnings before tax was strong at \$5.5 billion, up from \$2 billion in the same period last year. The group tax rate this quarter was 51.3% and, for the upstream business in Norway, the tax rate was 72.6% due to the strong results, given less impact from the tax package.

Now to comments to each of the reporting segments. E&P Norway delivered its best quarterly results since 2014. In 2014, E&P achieved this quarterly result with a Brent price of around \$100 per barrel, what's now making it at just about \$60, a true testament to the major improvements done over the last years. The production efficiency was strong and this, together with other improvements, secured a deduction of 3% in underlying operating costs. Svedrup and Troll are the largest contributors, but we see strong deliveries across the board. In the quarter, we had 4 high-value discovery wells on the NCS, close to existing infrastructure, adding a total of around 90 million barrels of oil equivalent net to Equinor.

E&P International delivered a strong result with \$382 million in adjusted earnings before tax. Adjusted earnings after tax are negatively affected by a nonrecurring effect in Angola impacting the tax rate. The continuing efforts to reduce costs by ourselves and our partners are rewarded as underlying operating expenses are down 6% in the quarter. Our business in Brazil is impacted by the Peregrino field not producing due to the pandemic impacting the repair of the risers and delivers a negative bottom line in the quarter. We will drill 2 exploration wells towards the summer with a potential financial exposure by Equinor of around \$150 million, including signature bonuses.

Our U.S. upstream segment delivered adjusted earnings of \$192 million and a strong cash flow from operations of around \$600 million. The sale of Bakken closed on Monday. And therefore, both production and revenues from Bakken are included. E&P USA is continuing to reduce cost. And the investment level has been significantly reduced compared to the same quarter last year.

So to the MMP. MMP delivered adjusted earnings of \$61 million in the quarter. Last year, we decided to move sales of some gas volumes from 2020 to summer '21 and some beyond, taking advantage to capture higher prices. With the impacts of colder weather in Asia and Europe and the draw of greater LNG volumes into Asia, European gas prices were even better than anticipated. The increase in gas prices was positive for the group overall as reflected in upstream results this quarter. But it also means that MMP report losses on derivatives for gas forward sales against the stronger prices seen at the end of the quarter. Refinery margins were weak in the quarter and affected the results negatively. And the shutdown of Hammerfest LNG also impacts the results. However, we delivered solid results within liquids trading, especially within LPG and the light Ends.

So to Renewables, the new segment. And we report our Renewables business as a separate segment this quarter. The structure of this segment differ from the other ones in important ways, affecting how we report. It has been a common practice to establish separate companies to develop and to operate the renewable assets. This, combined with us often having an ownership share of 50% or less, leads to equity accounting being common in this segment. Both project financing and portfolio optimization are key part of our value creation strategy in Renewables.

And like other renewable companies, we will, therefore, not adjust for profits and losses from transaction in this segment. We will, however, continue to provide full visibility how we consolidate and report gains and proceeds from transaction. In addition, I would like to remind you that on equinor.com, there's further information about our renewable assets. Our share of the results from renewable assets in production was \$24 million in the quarter. Including the cost associated with the maturing of our renewable project pipeline and gains from transaction, adjusted earnings for the segment was \$1.34 billion.

So to the production, and I will start with oil and gas. This quarter, we delivered stable and safe operations with high regularity despite COVID restrictions and strict infection control measures. Our equity production was 2,168,000 barrels per day in the quarter, slightly down from the record production in the same quarter last year. Production is negatively affected by the outage at our Hammerfest LNG plant and at Peregrino, partially offset by higher production at Johan Sverdrup and production ramp-up at Snorre expansion. To capture additional value from higher gas prices, we also had high production from our flexible gas fields in Norway and from our U.S. gas operations.

So to the Renewables production. Our offshore wind farms had high availability and stable operations throughout the quarter. In March, Hywind Scotland was named the U.K. offshore wind farm with the highest capacity factor for the third time. However, there was less wind this quarter than expected for the season. And the production ended at 450 gigawatt hours, down from 558 in the same quarter last year.

In the quarter, we delivered a strong cash flow from operations of \$6.6 billion and a very strong net cash flow of \$5.2 billion after net investments and dividends. Driving the cash flow were continuous improvements and strong capital discipline combined with proceeds from divestment. We paid cash tax of \$78 million in the quarter at NCS and will pay around \$160 million in the second quarter based on the 2020 results. But based on the first quarter results, we expect increased tax payments in the second half of 2021. The strong cash flow helped to significantly improve our net debt ratio by 7.1 percentage point down to 24.6%.

So going towards the end, and let me end with our outlook. We expect annual organic CapEx in 2021 and 2022 at \$9 billion to \$10 billion. And 2021 exploration is capped at around \$0.9 billion. The expected annual average production growth from 2020 to 2026 is around 3% while the rebased production growth for the current year is expected to be around 2%.

Thank you very much for your attention, and I look forward to your questions and pass it back to you, Peter.

Peter Hutton - *Equinor ASA - SVP of IR*

Many thanks, Svein. So with that, I pass it through to the operator to open up for polling and then we will be taking the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is 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*

Hi, thanks for taking my questions. I have two, please. The first one is on shareholder returns. Where do you want your gearing or net debt to be before you can return your dividend back to pre-COVID levels as you previously planned it?

And then second question is actually on maintenance. Just thinking about the portfolio as a whole, depending on the country you're in, the rules around personnel distancing, et cetera, will be different. So I was just wondering, if you look at your maintenance activities for 2021, are you on track as it stands today? Or is it maybe taking longer to complete some of these things? And also, can you confirm if you're still completing the same level of preventative maintenance now as you maybe would have planned 6, 12 months ago?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Biraj. And thanks for good questions. Regarding the dividend, as we have said over the last quarter is that when the Board is then doing the assessment on the dividend level based on a quarterly basis, it's an assessment of the company's -- the financial position that we are in, the funding requirements ahead of us, investments that we have at hand for more good and advantaged portfolio, the market condition but also the commodity price expectations. So those are the things that we are taking into account.

And so what the Board has gone and done the evaluation, we see that there are some better market conditions out there. We have been able to reduce the debt by about 7.1 percentage point, down to below 25%. And so the assessment that has been done in this quarter is that we increase the dividend by \$0.03 to \$0.15 per share. There's no clear rules on when we are then getting to exactly this level of net debt ratio, then we will then do further assessment. But it's the totality that really, really matters here. And the Board is doing that assessment on a quarterly basis as we have communicated.

Regarding then the maintenance for 2021. And as you might remember, in 2020, we then deferred quite a bit of the maintenance due to the COVID situation. We had some more maintenance. For example, on NCS, towards the end of the year normally in second and third quarter. This year, we have also focused a lot on the maintenance being on track. So what we now see and expect in the second and third quarter is that we will have more maintenance.

And for the totality for the year, we expect turnaround effects of around 50,000 barrels of oil equivalent per day. The major part of it will then come in second and a little bit less, we expect, then in third. We are following the COVID restrictions there and doing good planning with the people onboard on there so that we are able then to prioritize and do the maintenance as we go along.

Operator

The next question is from the line of Oswald Clint from Bernstein.

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

Thanks, Peter, Svein, thank you. Hammerfest, another 6 months' delay. I just want to, firstly, understand the insurance. So is it \$100 million a quarter? But it looks like \$60 million of that is from the captive. So is that how we should think about that, it's kind of net \$40 million each quarter? And then principally, my question is are there any critical milestones here to ensuring this starts up by the end of March next year? I know there's 180 kilometers of cable to arrive this summer and then replace. Does that need to be in before the winter period this year? Just any color around that would be interesting, please.

And then secondly, you mentioned integrity of operations. And just with that in mind, Ørsted, I think, this morning took a pretty sizable warranty provision on cable protection around their wind turbines. And it's all around scouring just in terms of the rock. So I imagine with your offshore experience, you probably planned for these issues. But is there any reason to expect that you might be susceptible to similar issues now or in the future?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Oswald. On the Hammerfest, as you refer to, is that we had an income from the insurance coming into the DPN segments this quarter of around USD 100 million. And part of this is coming from our captive and around \$60 million is then estimated then to come from the captive while the remaining will come from external sources. This is then based on totality and not then on the quarterly impact of it.

Going forward with Snøhvit and Melkøya in this perspective, it's then quite a lot of cable and work that needs to be done. It's been working on getting the full overview here, but -- so it's manhours then being required, has been some limitation also held due to the COVID and to get people into the facility there, but we are also working on that one. So best estimate now is that we will have a startup within end of the first quarter next year. On the totality, with the seasons into (inaudible), the harbor, it's -- since we have the Gulf Stream, it's not an iced place, so it's possible to operate with both in and out at all time.

On the wind part of it, as you alluded to, I will not comment on Ørsted's statements there. But what we are following on totality is that we are utilizing, in general, the competence that we have from our offshore oil and gas in an extensive way for them -- for the development of the areas and those things. And we are also working closely with our suppliers for the wind turbines to also make sure that we have that in good place. So no new update from us on this one.

Operator

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

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

Good morning and thanks for taking my questions. Two questions. First one is on Sverdrup. This morning, Lundin is out and commenting on that platform for Phase 2 could exceed current guidance of 720,000 barrels per day. And I guess that's not a shocking news. But could you please comment on that? What should we expect after first oil at Phase 2? And second question is regarding U.S. Svein, you said that roughly, as far as I understood, the earnings from the U.S. activity includes Bakken in first quarter. I just wonder how much of the earnings, \$190 million, is related to Bakken.

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Teodor. On Johan Sverdrup, now we are then working then to lift the production on Phase 1 then to 535,000. And we expect that, that will happen then before the summer. On the totality, for the full field for Johan Sverdrup, our best estimates today is still then the 720,000 barrels in the full capacity. It's been worked in studies and those things. But our best assessments, where we are today, is that the capacity is then 720,000

on Johan Sverdrup. Regarding Bakken, the impact on the Bakken there in the results into the net operating income is a little bit less than \$50 million in the quarter.

Operator

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

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

Hi, good morning And congratulations for those very strong results. So two questions. First one on the working capital variation, please, so this is the fourth quarter in a row where you have a working capital outflow. So I imagine that the reasons are different every quarter. But my question is how do you explain the working capital outflow in the first quarter? And should we expect part of that working capital outlook to reverse soon?

Second question is about your natural gas production in Norway. So it has been down roughly 3% versus Q1 last year. I understand that you have been impacted by your Snøhvit production shutdown. But I thought that you might have been able to boost production from fields where you have compressor units, given that the natural gas price has been very strong. So have you been able to boost that gas production from the fields where you have compressor or no and why? And if I may, on gas, would you say that the demand in Europe is currently high or not?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you for your questions. Regarding the working capital, what we are then seeing then from fourth quarter is then mainly related to the price impact. There is not that much volume impact that we are working on then to take that further down. And looking into the totality there, of course, dependent on the market outlook, contango versus backwardation, so it's been taken into consideration. But Ørjan, would you like to give some more details?

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

Yes. So we see in -- from fourth quarter to first quarter that we have increase in prices. But there are decreases in volumes. That is the impact on the inventory. And also on the trade and other receivable, we see increase then related to both prices. And that is related to activity in December and March and then limited effect on the trade and other payables.

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Ørjan. On the oil and gas in Norway, the Snøhvit impact is around 40,000 barrel of oil equivalent per day. And I explained some of the reasons why the production is slightly down on the Norwegian Continental Shelf. In the first quarter on our flex gas fields, both Oseberg and Troll, we have been running those at high capacity, taking advantage of the gas prices that we have seen in Europe. And in totality, you saw that invoiced gas price is around \$6.7 per million BTU in Europe. So by having done the good capacity and utilizing those 2 fields in the best possible way, we have been able then to capture strong values from there.

Regarding the European gas market, prices then going up and being at a high level, there has been strong demand in Asia. Cold weather in Asia also then driving then demand for LNG. That has meant that less LNG has come to Europe. It has also been a cold weather in Europe, so -- and then also a little bit less then supply from other sources into Europe. That has meant that gas prices has been strong. And this is something that we are then taking advantage of, utilizing the capacity that we have at our fields to gain this value then for our business. So we are then well-supported by the higher prices there. But of course, we also see currently that the prices are at a high level. And currently, there is then the filling-up of storages and those things, which is ongoing and then always the competition for LNG with Asia also currently having high prices.

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

Perfect thank you very much.

Peter Hutton - *Equinor ASA - SVP of IR*

Maybe if I could just make one clarification, just hopping on that, in fact, if you look, the gas production in this quarter in Norway was 723,000. A year ago, it was 745,000. So actually, the Snøhvit reduction more than makes up the difference. Excluding that one, underlying gas production was actually higher.

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

Yes, I noted that, thank you very much.

Operator

Next question is 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*

Good morning guys. Two questions for me. Just one going back to the dividend. And you've obviously mentioned in the past that the dividend needs to be competitive with peers. And over the past 12 months, we've seen many of your peers introduce a variable component with a lower base dividend. And obviously, you've got a good starting point there. And I guess, you don't have to really comment on what you're thinking. But is it fair to assume that we will get a new distribution policy announced with your Analyst Day in the middle of June?

And I guess, secondly, on flex volumes for gas. I believe there's an annual quota. I'm not quite sure how exactly it works from one quarter to another. But perhaps you can talk about the seasonal flexibility you have in the second quarter and the third quarter, please? Thank you.

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Thomas. On starting with the dividend there, and just also repeat what I said earlier, is the Board is then doing the assessment on a quarterly basis there and then, based on the outlook, the projects that we have enhanced, the volatility that we are seeing in the market. So that's what we will also then continue to do. We will have the Capital Market Day that we are -- we'll have in June. There, we will update our strategic outlook for the portfolio. And that also includes financial -- overall financial framework to it. So that's where we are there. But the Board is deciding on a quarterly basis then on the dividends.

With the volumes for the gas, it's then mainly related then to the Troll field and to Oseberg, where we have the flexibility. So on Troll and Oseberg, we are then utilizing the quotas and the production permit in the best possible way. So we are then running and optimizing based on the prices that we are seeing, so then being able then to capture the value then from the flexibility. If you look at -- compared to last year, you have seen that it's been then up then for flex gas in totality due to the fact that we saw that there were high prices now that we then took advantage for.

But the production permit is for totality. On Troll especially, there is a production permit, which also means that we can run that at a high level. So comparing then with the gas last year, you saw that the Troll was mainly at a similar level while the Oseberg, where we produce it over shorter period, we took the advantage of having high production now in the first quarter and onwards.

Operator

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

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

Hello everyone. Two questions if I may. Regarding the tax losses pool in the U.S.A., which is not reflected on the balance sheet, are you able to touch upon the possible implications of these farm-downs and the Bakken asset sale for this -- for the size of these tax losses pool, please? And the second question would be on turnarounds. So you are guiding for 120 kboe/d in the second quarter for the impact of maintenance. Are you able to say how much of this stems from Norwegian gas versus the Norwegian oil, please?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you. On U.S. and the tax positions there, by doing the farm-downs, for example, as we did now on Empire Wind and the Beacon Wind, we are able then to utilize our tax position in U.S., which means that we are able to do this without having to pay tax on the transaction. So we are utilizing that one in a good way. And it's also similar on the Bakken that we can utilize the position there when we are then doing the divestments. When we are looking then at the turnarounds, then in totality, as we said, around 120 for the quarter. On NCS, I would say, around 2/3-ish will then be related then to the gas and then around 1/3 then related to liquid of the turnaround in Norway as part of the totality of the 120. Ørjan?

Ørjan Kvelvane - *Equinor ASA - SVP of Accounting*

Yes. Just to comment on the Bakken, so we keep the tax carryforward position within Equinor.

Operator

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

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

Actually, my questions are largely concentrated around the new segment, Renewables segment. Now you've been very helpful in providing your production per field for oil and gas assets. I wonder if you will do the same for your renewable assets on a quarterly basis. And also, while you mentioned the Hywind Tampen in your introduction there, I know it's early days still. But is there any chance you can give some flavor on what you think levelized cost of energy will end up at when it comes to Hywind Tampen?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Could you repeat your first question because the line was not that good, if it was then production per...

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

So the first question is related to the production of renewable power in the quarter. Now for oil and gas, you report field-by-field basis for the quarter, which is extremely helpful, and it's a very good set of numbers that you provide on a quarterly basis. So I'm just wondering, will you do the same for the renewable assets?

Svein Skeie - Equinor ASA - Acting Executive VP & CFO

On that one, we are now in the buildup of the renewable portfolio. It is still early days, but those are things that we actually will then look into going forward, how then to provide good information also then for each of the wind parks that we are then building up. So that is something that we are looking into and we'll then continue to look into.

On your second one, on the Hywind Tampen part of it, I do not have the exact levelized cost of energy on that one. But what we have seen is that then when we started off with the first Hywind windmill just outside Stavanger, then moving over to Hywind Scotland with the 6 windmills there, we saw a significant decrease in the cost, the levelized cost of energy there. And we saw that further into the Hywind Tampen. We have the estimate for the Hywind Tampen of the total CapEx figures. And it is -- we are within this, so -- but I do not have the exact levelized cost of energy for it.

Operator

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

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

Hi good morning. I also have two if I may. I wanted to ask you about the EU taxonomy. Because I found the topic is sort of a little hard to gauge. So I recognize the question is sort of quite broad. But what do you think the sort of EU taxonomy sort of means for Equinor, and particularly this decision that we're all anticipating later in the year whether natural gas may come under EU taxonomy or not? Can you talk a bit about what that may mean for Equinor? It may mean very little, but I'm just trying to figure it out.

And the other one I wanted to ask you is that I noticed that Equinor New Energies has a separate credit rating of its own, or at least from Moody's, it does, not from the rest, but from Moody's it does. And I was wondering if you could talk a little bit about exactly what is in this entity. I would imagine it's, of course, your sort of renewables projects. But if you can sort of describe, that would be helpful. And also, why is the credit rating of this particular company lower than the main credit rating from Equinor? And does that mean that financing renewables projects via an entity like this is somehow at a sort of cost of capital disadvantage?

Svein Skeie - Equinor ASA - Acting Executive VP & CFO

Thank you. I will start with the EU taxonomy and also then to ask Ørjan if he would like to add something. And also on the rating, Mads, can you also then prepare for that one, for the New Energy company? What we see in the EU taxonomy, and it's then part of then overall then reporting requirement, which is then is incoming, we have been reporting with the sustainability report for quite a lot of years and trying to give an overview of important impacts from our operations and how we are doing. So what we will now do is awaiting the final legislation to follow that one from EU and then also then towards the Norwegian legislation, which will come and -- but what we see as an overall is that taxonomy aligns well with our strategic direction and also the mission of shaping the future of energy. And in that context, ESG has and will be an important part to us. Ørjan, will you add something?

Ørjan Kvelvane - Equinor ASA - SVP of Accounting

Yes. So we got some important clarification last week. So we are in the middle of assessing this and -- but I don't think we are in a position right now to comment any further. But we need to come back to that on a later quarter.

Svein Skeie - Equinor ASA - Acting Executive VP & CFO

So supporting into it and driving the strategic direction there. And Mads, some of rating of the -- on the rating on the New Energy company?

Mads Rømer Holm - *Equinor ASA - Head of Finance*

Yes. Thank you very much, Svein. So on the ratings side, so I can say that Equinor New Energy is containing most of the renewable business. But most importantly, it does not include the U.S. onshore wind at this point in time. The rating is slightly lower than Equinor ASA. And that's not because it's not solid, but that's a little bit about how we rate these entities and set it up.

Operator

Next question is from the line of Jon Rigby from UBS.

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

Thank you Svein. Two questions, actually rather more granular, I guess. The first is you made some comments about how problematic the pandemic effects are in Brazil. So I just wanted to check in on both the Peregrino work and the Bacalhau FID. Are the conditions in Brazil could allow you to sort of proceed with both of those on schedule? Or should we just be a little bit cautious on that? I guess, it depends on how much work you have to do in-country.

And the second is -- and forgive me for asking about this, but the tax rate on the NCS has been a bit all over the place since the tax concessions last year. And it's popped back up to something that looks more akin to where we were before those concessions, so -- and I guess, as I understand it, it's got much to do with the oil price. So if oil prices continue in the kind of range we've seen year-to-date, is the tax rate on the NCS that we saw in the first quarter a good number to be thinking about going forward?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thanks, Jon, for the question. And let me then start with Brazil. And as you all know, Brazil has been hit hard by the pandemic there. So what is our main priority is the safety and security for our people. And that means that we are following this very closely, making sure that we are not having more people onboard than it's absolutely critical then to do the development. There has been very, very hard also limitations in Brazil on then how then to be able to -- on a number of people that we are having onboard, so we -- that is the main priority. And that means that it's a bit harder to say how this will develop going forward. And that means that we just need to follow it, make sure that the safety is well taken care of. And when there are possibility then to do something and have more people onboard, then we will then have more people onboard.

That's for the Peregrino main. But it's also impacted on the Peregrino Phase II. Peregrino Phase II was on plan then to deliver with the startup by end of last year. But following this pandemic situation, it is also so that this has then also been delayed following the pandemic there and also on the repairs on Peregrino main. So that means that we have now a later startup. But it's still a challenging situation in Brazil. So it means that we need to follow it, follow it closely and making sure that the safety is well taken care of. And then we also need to come back then later on when we see that it's going back to more normal again to come with the exact date for this one. So no update on it.

On the tax rate, on Norwegian Continental Shelf, and the taxes paid in Norway on the Norwegian Continental Shelf is then this quarter coming from the results that we made in 2020. And it was \$78 million that we paid. However, when we look at taxes payable, which will then impact the second quarter, that is then increasing. And as you said, Jon, on the tax rate on the NCS, it's now down close to 72 percentage points. That's impacted by the strong results that we have been able then to generate on the Norwegian Continental Shelf.

So then high earnings that -- and this is the highest quarterly results since 2014 with the current prices. So with the high prices, we also see then less impact from the tax package. So that's the totality on it. So of course, depends on investment level, that has an impact with an increased uplift. But with high results in the E&P Norway segment, the impact from the tax package will be less than what we saw in last year, when we had lower results and then you had much more impact from the tax package.

Operator

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

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

Hi good morning gentlemen. My question is actually more like of a request for some comments on it. The Renewables business, it's great that you start reporting it as a separate segment. However, of course, when you're doing equity accounting as main principle, the revenues, EBITDA or EBIT numbers will be missing or at least being useless. And these numbers are really important to look at when we will try to evaluate the underlying performance or try to value that part of the business.

I just wonder if it would be possible to, at some point, to go over to more proportionate accounting, similar to what you do in the oil and gas business, actually would be more useful for us to judge. The next few quarters, your revenues from that segment will be 0, unless you have any sales, of course, asset sales. And also finally, on the Renewables business, it would be great to get some more insight into the financing of the individual wind farms. So I guess, that's more a request. But I wonder if you could comment a little bit on those issues. I'm sure you thought about it.

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thanks, John, for the questions there. And this quarter, we are then reporting Renewables first time as a new -- as a separate segment following then the accounting rules there. And as you said, it's been -- so several other companies is then equity accounted and that we are in a way following. We tried then also then to give some more visibility on part of the totality as we also have been doing earlier on an annual basis. Also some of the commercial terms and as well as descriptions of the totality is then also then giving at equinor.com. So there are some more information there. And then also, we have tried then to give some, for example, on Dogger Bank. When the financing was in place, we also released some information around that one. So I think it's a segment in development.

Operator

Next question is from the line of Lydia Rainforth from Barclays.

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

Thank you and good afternoon. Two questions if I could. The first one on cost. If I look at sort of Norway being down sort of 3% year-on-year and then International and U.S., 6% year-on-year, are they broadly in line with what you would expect at this stage? And I'm just wondering if Norway could go a little bit further.

And then secondly, on the hydrogen side and the Keadby project that you announced during the quarter, is the idea that the Equinor natural gas going into that project that, that ends up being a long-term contract and that essentially is then zero carbon gas in the way that you're thinking about it?

Svein Skeie - *Equinor ASA - Acting Executive VP & CFO*

Thank you, Lydia. Let me then start on the cost side and the totality there. As we then also commented a bit on in the run-through of the segments, the underlying operating costs are down then both in the E&P Norway, in E&P International as well as in the U.S. We see that are 3% underlying cost down in the E&P in Norway. And it's then -- we are able then to capture on the improvements that we have been doing over the last years. So that is then there is high focus on it in the organization.

Looking at the totality, when you look at the absolute numbers on Norway, it will -- since we are reporting in U.S. dollar and quite a lot of the costs are then in Norwegian krone, there will be a currency impact on it. But what we are then trying then to focus on, on the underlying, then we're trying to take out that impact. And there we see the improvements that we are getting with around 3% in -- related to not the currency and the impact coming from that.

On the International part of it, in the E&P International totality then, we have still a strong focus there, both ourselves as well as then our partners there. So we see that both we and -- but not -- also where on we are partners, that the operators are also having a strong impact on the cost and good focus then to take that further down.

On the hydrogen part of it, as you asked also, Lydia, we have then set up a separate unit within the MMP segment. It's called Low Carbon Solutions. And we -- in this quarter, we have then been able then to have progress on several things. We have the releases that we have related around the Humber in the U.K. So we are maturing and working on that one as well as the MoU that we have with -- for Netherlands, Belgium and France. So that is handled by the Low Carbon Solution group in MMP.

Operator

(Operator Instructions)

Peter Hutton - Equinor ASA - SVP of IR

I'm actually going to interrupt that actually because we do have to get away. So I think I saw in a way there are no further questions. So I'd like to take this opportunity to thank Svein and our colleagues for covering those and for all of you who joined the call this morning. As always, if you have any follow-up, please don't hesitate to call us in Investor Relations. I'd also take the opportunity to remind you that it's our Capital Market Day, as Svein said, on June 15. So we look forward to talking to you then as well. So with that, I'd like to just pass on my thanks, stay safe and best regards. Many thanks, indeed.

Operator

Ladies and gentlemen, the conference has now concluded, and you may disconnect your telephone. Thank you for joining, and have a pleasant day. Goodbye.

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