The road not taken: Equinor's alternative to international oil and gas growth

How shareholder dividends could have delivered Norway US$36 billion (400 billion NOK) and avoided 6.3 GtCO_2e of emissions

ACCR

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Executive Summary

This report provides analysis which suggests Equinor's ongoing pursuit of oil and gas production outside the Norwegian Continental Shelf has made Norwegians poorer, not richer.

From its initial public offering (IPO) in 2001 until 2023, Equinor spent $103 billion[1] expanding its oil and gas portfolio outside of Norway, increasing international production tenfold over this period. The international segment remains central to Equinor's strategy today, with ~$3 billion p.a. international capex forecast over 2024-2030.

International operations have, however, delivered only modest value accretion for Equinor – generating just $2 billion in nominal terms, according to our modelling. Greenhouse gas (GHG) emissions from the international portfolio have been extensive - more than five times Norway's total domestic emissions, with current assets forecast to emit twice as much again by the end of the century. With Equinor under pressure from shareholders to move closer towards Paris alignment and protect long-term value, scrutiny on the beleaguered international portfolio is set to increase.

We have modelled a counterfactual, where instead of using cash flow to pursue international oil and gas growth over the past two decades, Equinor paid higher shareholder dividends – including to the Norwegian state, which under law would have invested this money in the Government Pension Fund Global (GPFG). The findings are stark: Norwegians would have been $36 billion (400 billion NOK) better off had this road been taken.

Previous ACCR research shows that halting the development of fossil fuel projects outside of Norway, and stopping all exploration for new oil and gas reserves, can move Equinor closer towards Paris alignment without materially diluting shareholder value.

1. All $ currency values are USD, unless expressed otherwise.

Key points

- Despite Equinor spending $103 billion expanding its oil and gas portfolio outside of Norway between 2001 to 2023, the international portfolio has only generated $2 billion in nominal terms.
- Equinor's international oil and gas projects have emitted 5 times Norway's domestic emissions and are forecast to emit twice as much again by the end of the century.
- **If, instead of pursuing international oil and gas growth, Equinor had paid out higher dividends to shareholders:**
    - **investments in the GPFG[1] equities would have generated $54 billion more value than Equinor's international oil and gas assets**
    - **which means the Norwegian state would have been $36 billion (400 billion NOK) better off.**
- The company says it has been 'improving' and 'optimising' its international investments since 2013. However, our modelling shows its international investments since this time have lost money – more than $1 billion in nominal terms.

1. Or a similar diversified equities fund.

Equinor's choice: international growth or higher dividends?

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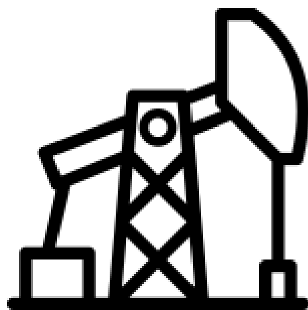
At the time of its IPO in 2001, Equinor faced a choice about where it would reinvest the large amount of cash flows generated from its high-returning Norwegian oil and gas business



OR

The historical reality: international expansion

Between 2001 and 2023, Equinor spent $103 billion expanding its global oil and gas segment.

The counterfactual: higher dividends

In an alternative scenario, Equinor could have distributed higher dividends.

Equinor's majority owner, the Norwegian state, would have invested these dividends into the Government Pension Fund Global (GPFG), pursuing more diversified returns.

Other investors could make their own decisions on how to invest these dividends.

Since its IPO, Equinor has made international growth a strategic priority

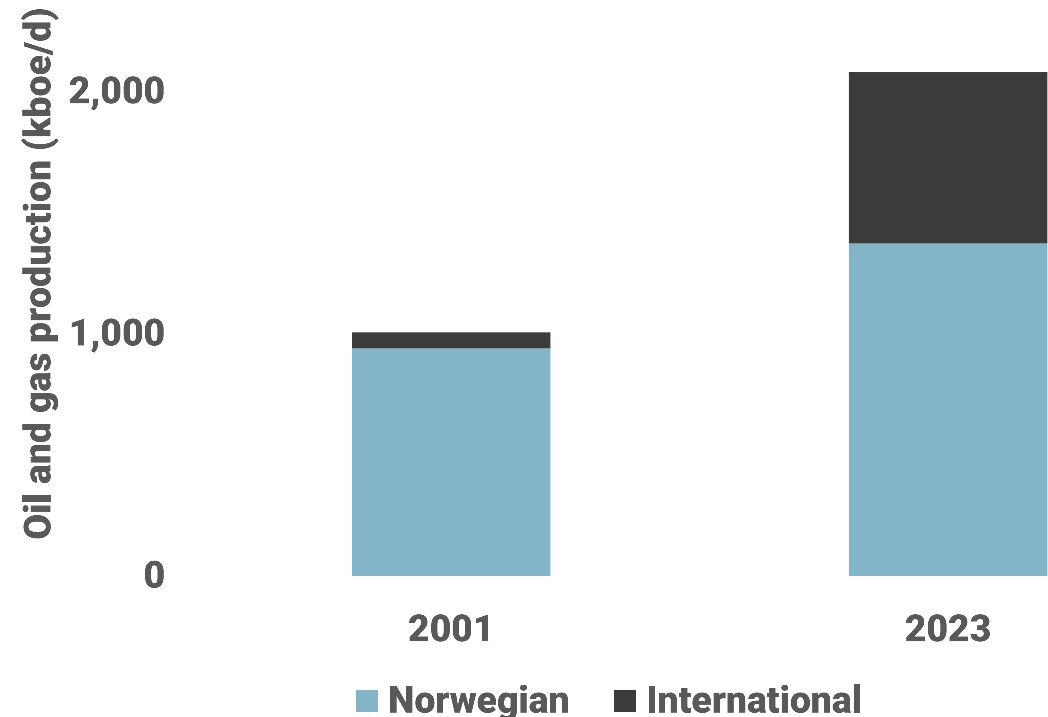
In 2001, Equinor produced 93% of its output from the Norwegian Continental Shelf and only 7% from outside.[1]

The company decided to take an "*increasingly international perspective*"[2] and the board placed "*great emphasis on strengthening international upstream activities.*"[3]

Since then:

- Equinor has spent $103 billion in capex outside of Norway
- international production has grown tenfold
- domestic production has grown more slowly.

The international segment continues to be central to Equinor's capital allocation strategy (see slide 19).



1. Equinor, 2001 Annual Report, p18.
2. Equinor, 2001 Annual Report, p5.
3. Equinor, 2001 Annual Report, p9.

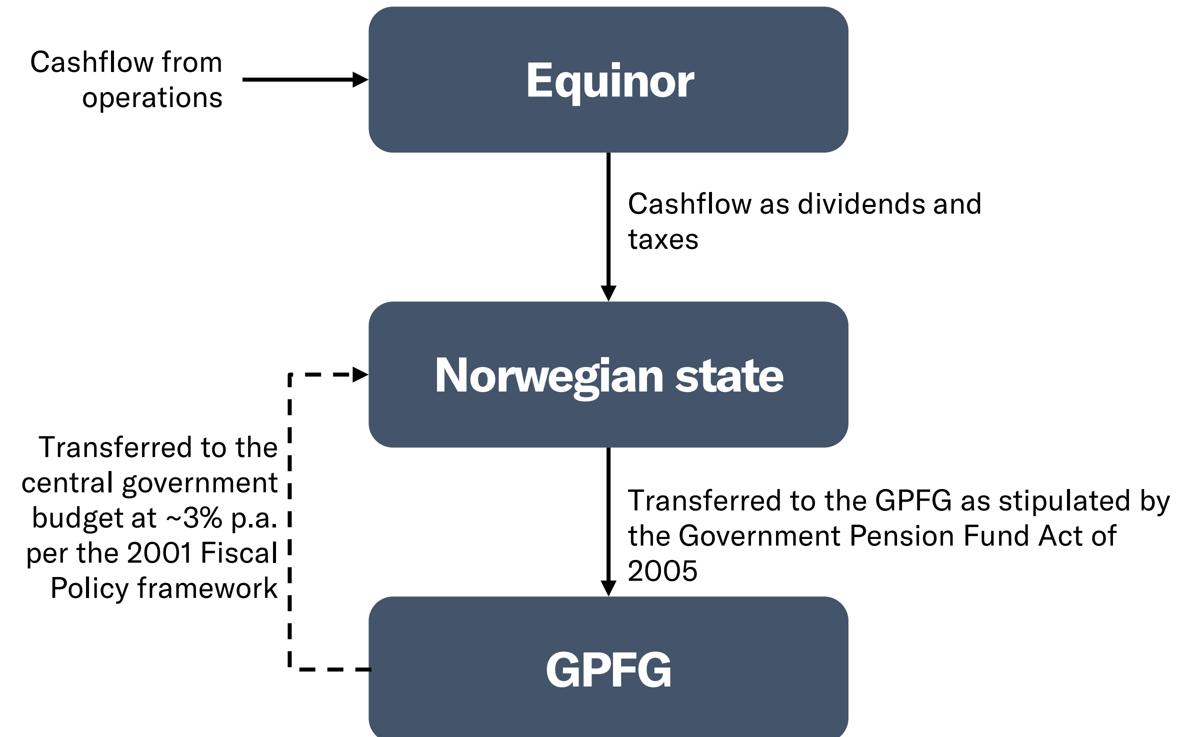
If Equinor had decided to pay higher shareholder dividends instead of investing in international production, more money would have flowed through to the Norwegian state

The Norwegian state collects Equinor's petroleum revenues through:[1]

- Dividends: as a 67% equity owner of Equinor, the state receives dividends.
- Taxes: Equinor pays income tax, environmental taxes and a special petroleum tax

As stipulated by the Government Pension Fund Act of 2005, these cashflows are transferred to the GPFG for long term investment.[1]

A small percentage of the fund is fed back into the Norwegian central budget every year as per the Fiscal Policy framework.[2]



1. Refer to slide 21 for further detail.
2. Ministry of Finance, The Norwegian Fiscal Policy Framework.

Norway created the GPFG to responsibly invest oil revenues internationally, ensuring long-term wealth for future generations

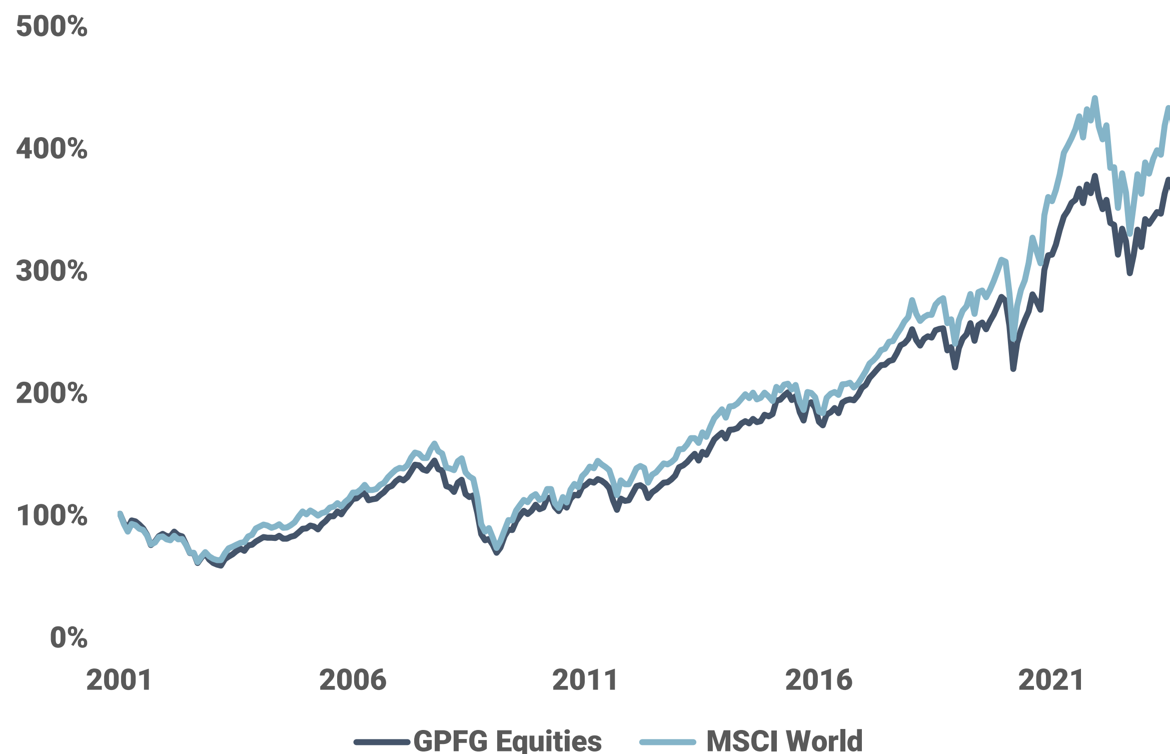
In 1969, one of the world's largest oilfields, Ekofisk,[1] was discovered in the Norwegian Continental Shelf. With booming oil exports and a rapidly growing economy, Norway decided to use its oil revenue cautiously.[2]

This led to the creation of the GPFG. Its purpose is to "*ensure a long-term management of revenue from Norway's oil and gas resources, so that this wealth benefits both current and future generations*."[2]

The GPFG is managed by Norges Bank Investment Management (NBIM), who acknowledge that "*one day oil will run out*." To prepare for this, oil and gas revenue is transferred to the fund and invested internationally.[2]

NBIM is a large, long-term investor that invests broadly in companies listed in the FTSE Global All Cap index, which includes over 9,000 companies across 45 countries.[3]

GPFG Equities and the MSCI World index have more than tripled since 2001



Source: NBIM, Bloomberg Finance LP

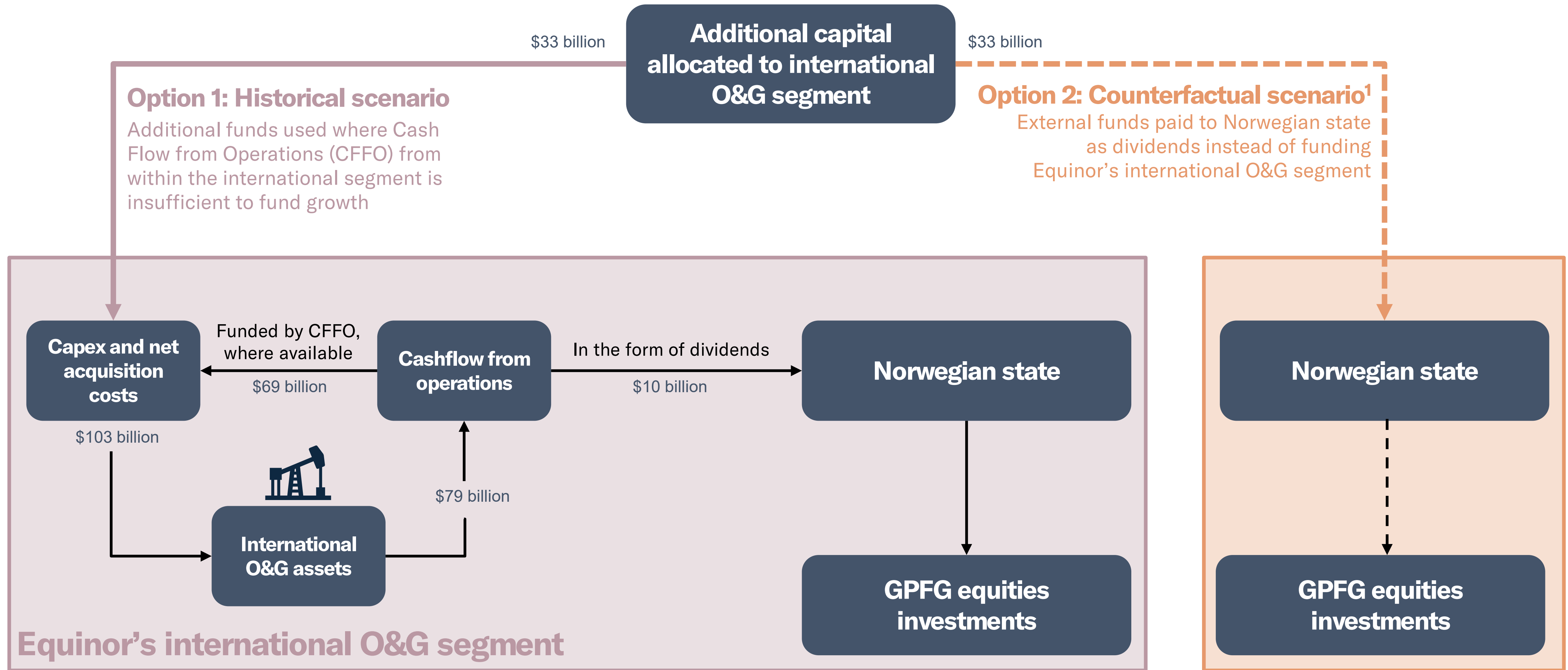
1. Ministry of Energy and the Norwegian Offshore Directorate, Norway's petroleum history.
2. NBIM, About the fund.
3. NBIM, Investment strategy and Benchmark index.

The counterfactual

Modelling a scenario where, instead of pursuing international oil and gas (O&G) growth over the past two decades, Equinor uses the capex to pay higher dividends to the Norwegian state, which in turns invests in the Government Pension Fund Global (GPFG), we found:

- investing in GPFG equities (or a similar fund) creates $54 billion more value for investors than from Equinor's international O&G assets
- which means, given the state's 67% ownership, Norway would have been $36 billion (400 billion NOK) better off.

How we modelled Equinor redirecting additional capital towards higher dividends



More detailed assumptions are in slides 22 and 23. The GPFG is only available to the Norwegian state, but other investors can invest in similar diversified equities funds such as the MSCI World index.

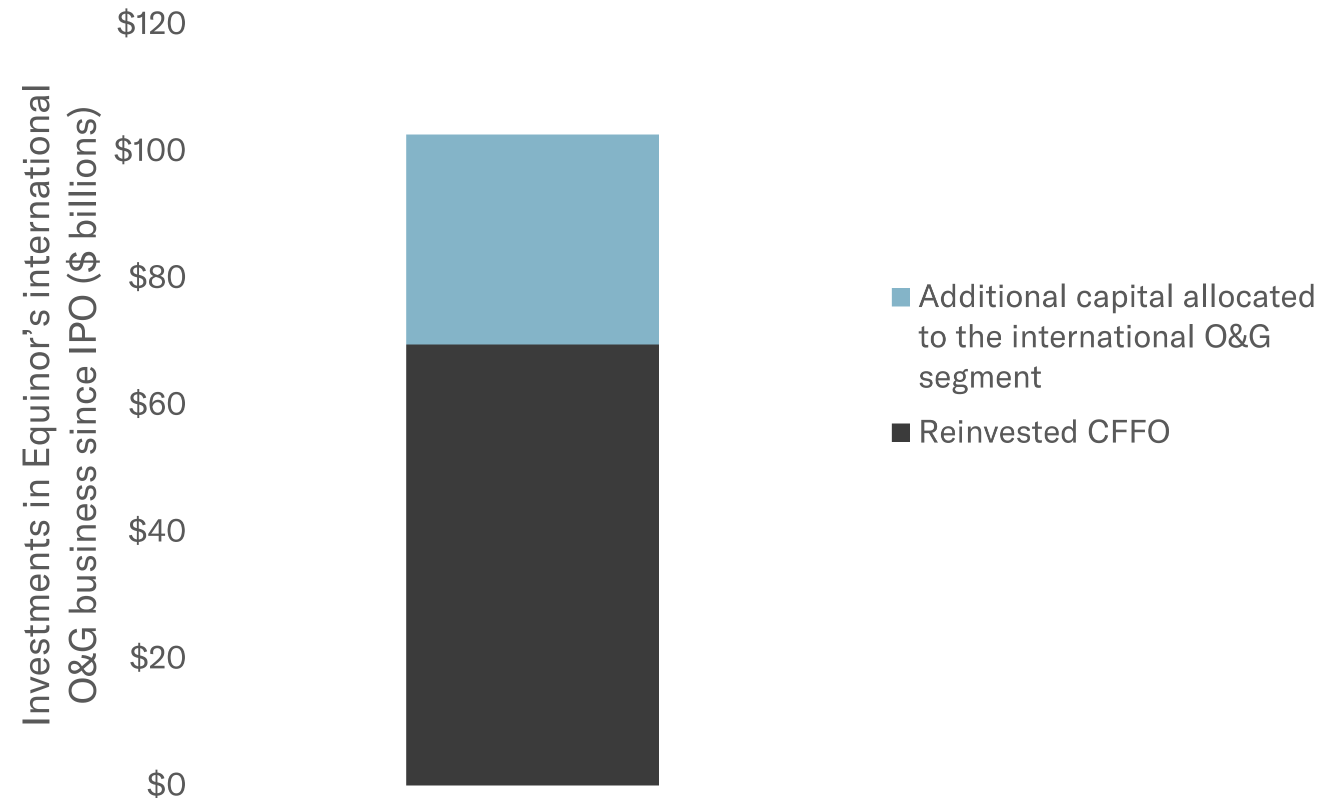
We found that since Equinor's IPO, there was $33 billion of additional capital allocated to international growth that could have been re-allocated to dividends

Since 2001, Equinor has allocated $103 billion of capex[1] to its international oil and gas segment. When modelled as a stand-alone portfolio, we found that:

- $69 billion could have been funded by reinvesting CFFO
- $33 billion would be required from outside the segment.

Our model focuses on the $33 billion, comparing the financial outcomes if it was instead invested in GPFG equities.

When modelled as a stand-alone portfolio, 68% of Equinor's international O&G capex since IPO can be funded by segment CFFO



Source: Rystad Energy, S&P Capital IQ, ACCR analysis

1. See slide 22 and 23 for definitions.

The Norwegian state would have been $36 billion better off had Equinor not expanded its international oil and gas production

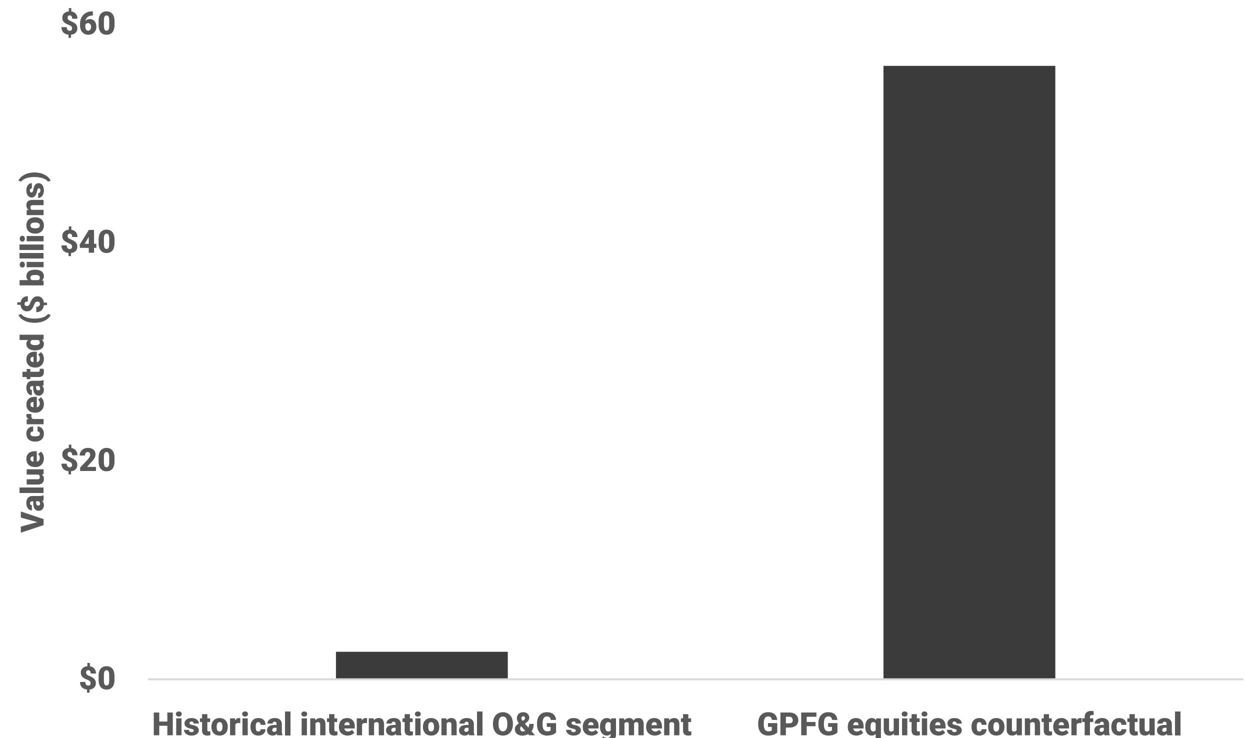
When modelled as a stand-alone portfolio from 2001 to 2023, **Equinor's international oil and gas projects generated $2 billion in nominal terms.**

In the alternative scenario, **investing in GPFG equities would have created $56 billion of value** — 90% of Equinor's current market capitalisation.

This means that over the past two decades, the budgets of Norwegian governments would have been $36 billion (400 billion NOK) better off if Equinor paid higher dividends instead of expanding globally (based on Norway's current 67% stake in Equinor).

While non-state investors cannot invest in the GPFG, similar returns could be achieved by investing in another diversified equities fund, such as the MSCI World Index.

Equinor's international O&G assets have underperformed GPFG equities by $54 billion since 2001



Source: Rystad Energy, NBIM, S&P Capital IQ, ACCR analysis

Equinor's international investments eroded more value than the company has created within Norway since 2001

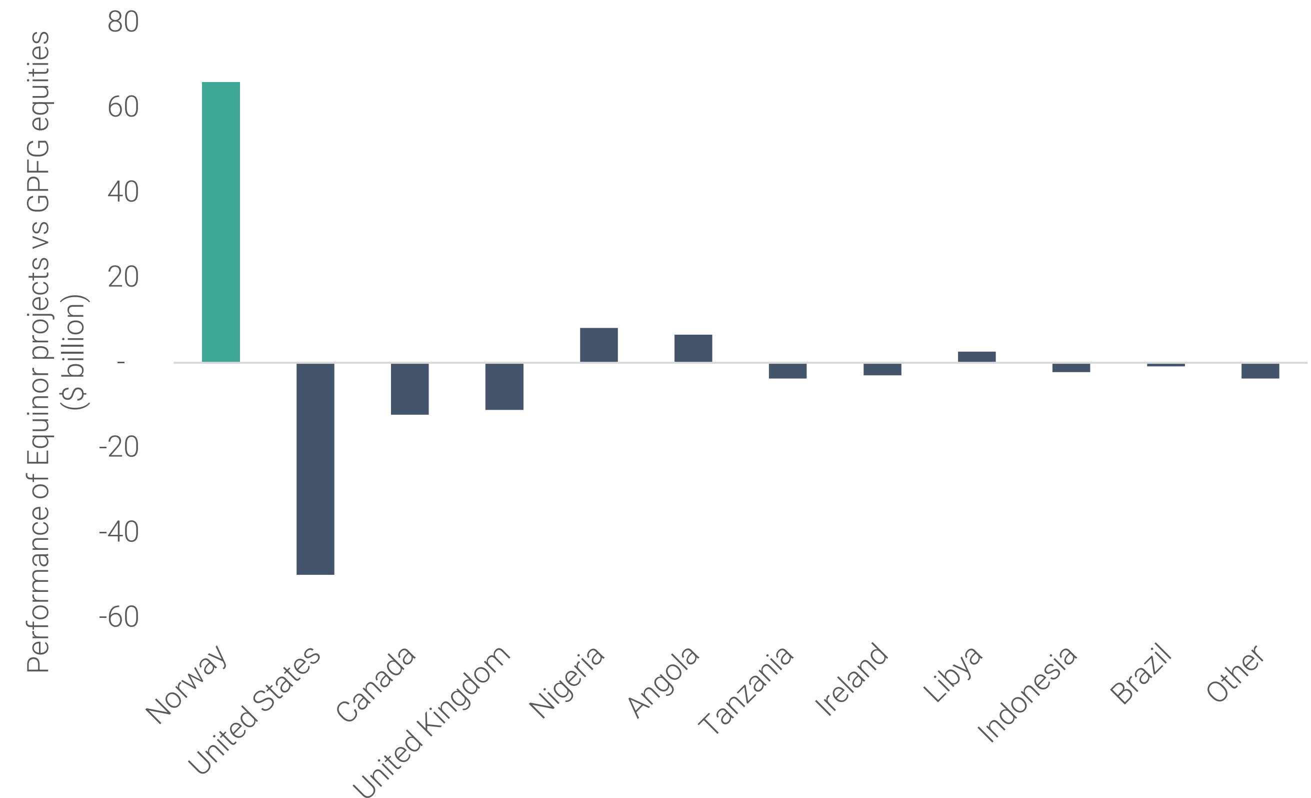
To test whether Equinor's international underperformance has been caused by a single jurisdiction, we separately applied our model to each country it has invested in.

It shows that Equinor's Norwegian investments have outperformed GPFG equities by $66 billion since 2001, **highlighting the competitive advantage of Equinor's domestic operations.**

However, the international segment[1]:

- underperformed in 80% of the countries Equinor has invested in
- dramatically underperformed in the USA, but still underperformed by $19 billion even when the USA is excluded.

GPFG equities outperforms Equinor's international investments in most nations



Source: Rystad, NBIM, ACCR analysis

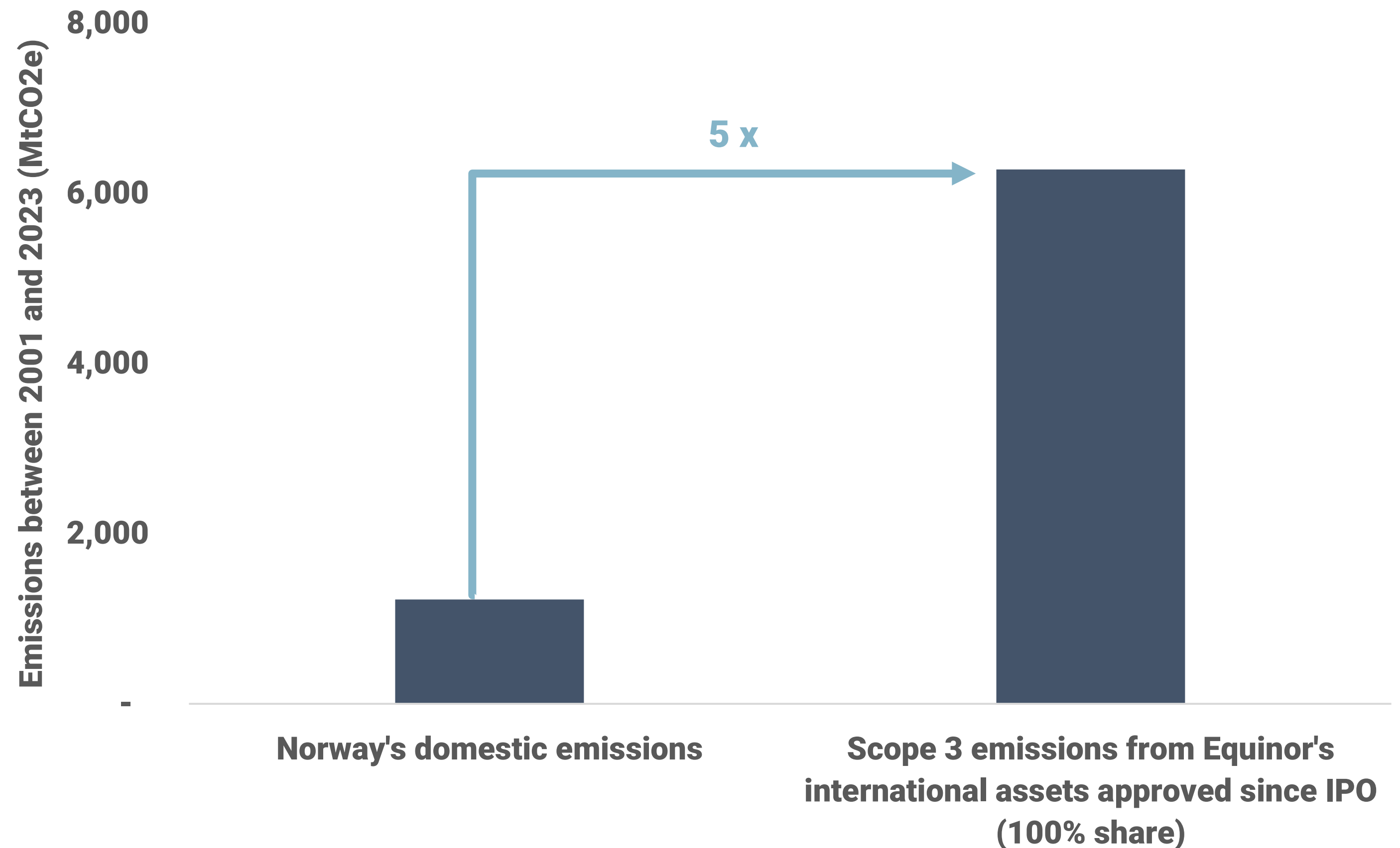
1. Due to the non-linear nature of our model, these values do not sum to the segment total.

Since IPO in 2001, Equinor's approved international O&G assets have emitted 5 times Norway's total domestic emissions

Equinor's international assets have contributed significantly to climate change.

Between 2001 and 2023, they were responsible for gross 6.3 GtCO_2e - more than 5 times the total domestic emissions of Norway during the same period.

These assets are forecast to emit a further 13 GtCO_2e of scope 3 emissions by the end of the century.



Source: Rystad Energy, Statistics Norway, ACCR analysis

Failing to course correct

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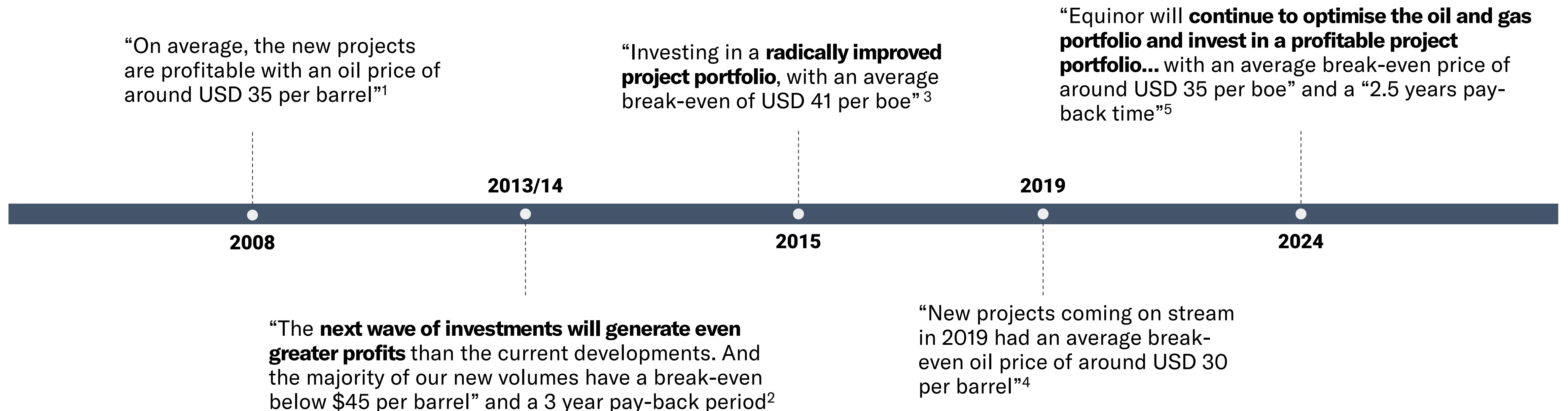
Equinor has attempted to improve and optimise its international segment for over a decade

Despite chronically weak returns from its international segment, Equinor has a long and consistent history of:

- making optimistic forecasts
- claiming to have a plan to address the segment's historic underperformance.



1. Equinor, StatoilHydro maintains growth ambition.
2. Equinor, Q4 2013 Statoil ASA Earnings and Capital Markets Update 2014 Conference Call, p7.
3. Equinor, 2015 fourth quarter results.
4. Equinor, 2019 Annual Report on Form 20-F, p9.
5. Equinor, Equinor fourth quarter and full year 2023 results and 2024 Capital Markets Update, p31.

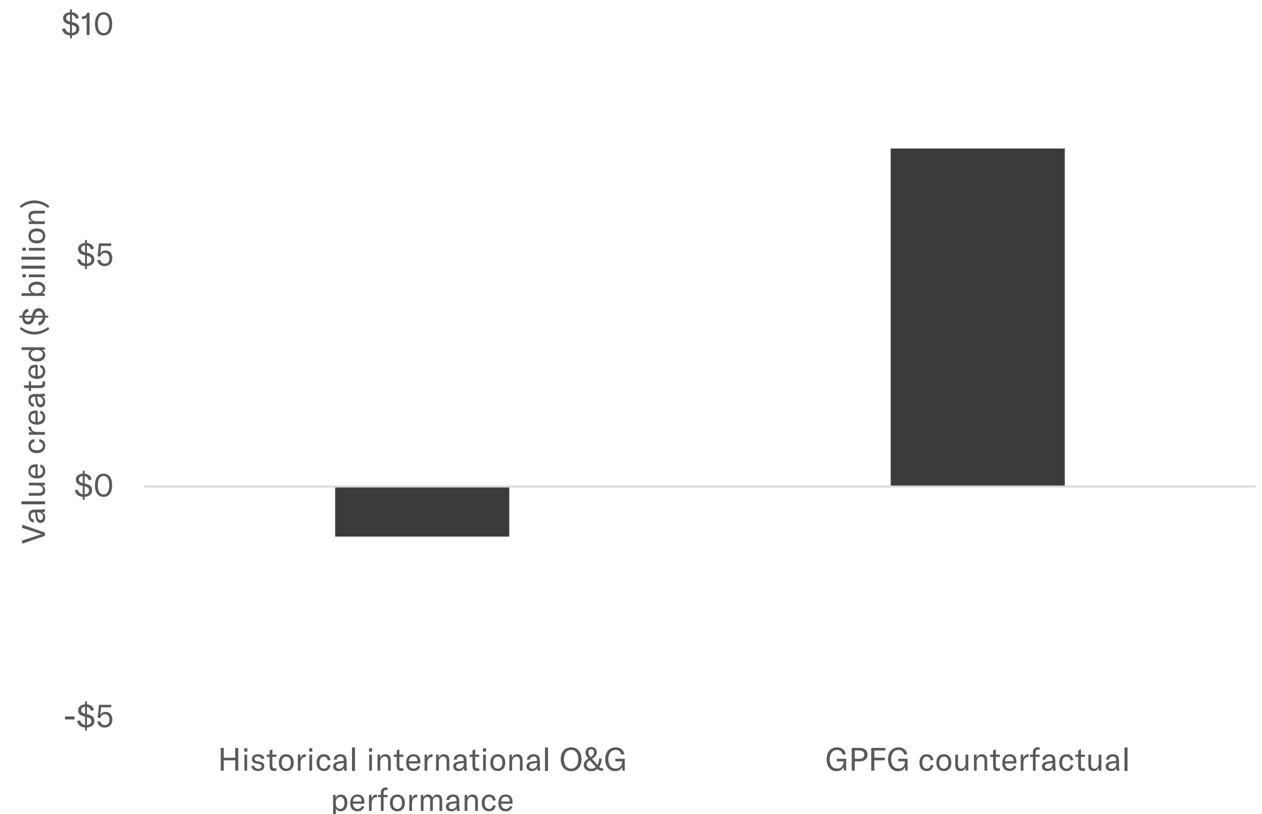
Equinor's international segment has eroded value since 2015

Despite Equinor's claims its 'wave' of international projects from 2013 would generate even greater profits, Equinor's international FIDs in 2013 and 2014 eroded $3.6 billion.

Since 2015 however, Equinor's international FIDs generally achieved positive net present value, so we modelled a scenario based on investments since 2015.

Under our model, Equinor's international oil and gas investments made between 2015 and 2023 delivered $8 billion less than a similar investment in Government Pension Fund Global (GPFG) equities over the same period.

The difference between Equinor's historical returns and those delivered by our model show that Equinor's claims of fixing its international segment are no longer credible.



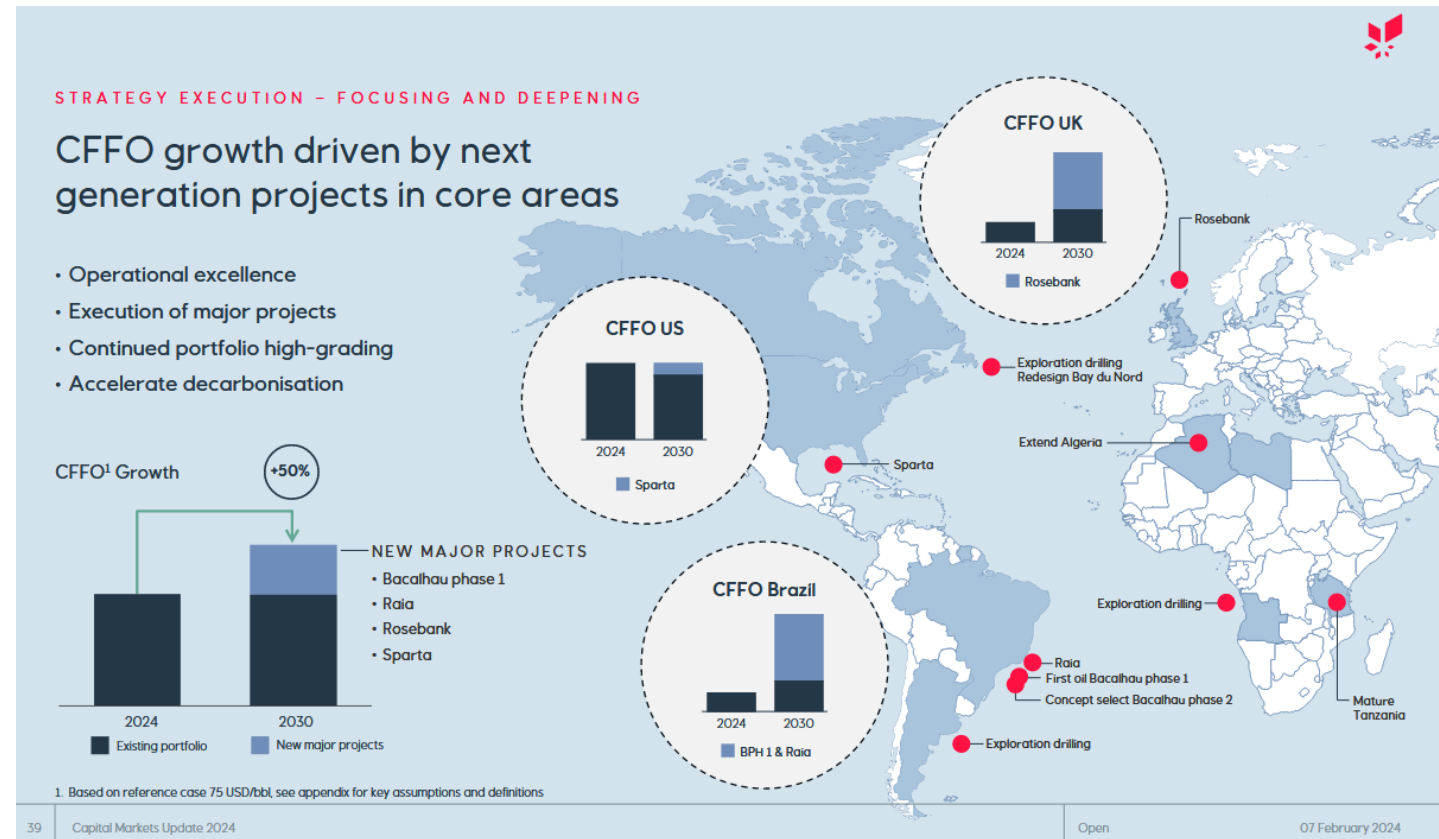
The international segment continues to be central to Equinor's capital allocation

As of its 2024 Capital Markets Day[1], Equinor's outlook was for:

- ~$3 billion p.a. of international capex from 2024 to 2030
- a 15% increase in international production by 2030
- investments based on an optimistic oil price which is 27% above the futures price[2], as well as higher than most of its peers.

Investors should be wary of optimistic forecasts, given Equinor's long history of failing to deliver on similar claims.

Like previous CMDs, Equinor's 2024 CMD projects strong returns from international investments



1. Equinor, Capital Markets Day 2024, pp 36-42.
2. Comparison of 2030 nominal Brent future price to Equinor's $75 RT2023, escalated at 2% p.a. inflation.

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The Act relating to the Government Pension Fund Global stipulates that dividends from Equinor ASA are transferred into the GPFG

Section 4.

(1) The income of the Government Pension Fund Global consists of the net cash flow from petroleum activities transferred from the central government budget, net financial transactions relating to petroleum activities and the return on the Fund's investments.

(2) The net cash flow from petroleum activities consists of the gross revenues in Sub-section 3, less the expenditure in Sub-section 4.

(3) The following gross revenues make up the cash flow from petroleum activities:

1. total tax revenues collected under Act of 13 June 1975 No. 35 relating to the Taxation of Subsea Petroleum Deposits, etc., and Act of 29 November 1996 No. 72 relating to Petroleum Activities;
2. tax collected under Act of 21 December 1990 No. 72 relating to Tax on CO_2 Emissions in Petroleum Activities on the Continental Shelf;
3. tax revenues on NO_x emissions in petroleum activities on the continental shelf;
4. operating income and other revenues from the State's Direct Financial Interest in petroleum activities;
5. central government revenues from net profit agreements under certain production licenses;
6. **dividends from Equinor ASA;**
7. central government revenues relating to the removal or alternative use of installations on the continental shelf;
8. revenues from the sale of stakes representing the State's Direct Financial Interest in petroleum activities.

(4) The following expenditures shall be deducted from the gross revenues in Sub-section 3:

1. direct investments in the State's Direct Financial Interest in petroleum activities;
2. operating expenses and other direct expenditure in the State's Direct Financial Interest in petroleum activities;
3. central government expenditure relating to the removal or alternative use of installations on the continental shelf;
4. purchases of stakes representing the State's Direct Financial Interest in petroleum activities.

(5) Net financial transactions relating to petroleum activities comprise total gross revenues from central government sales of shares in Equinor ASA, less central government purchases of shares in Equinor ASA, defined as the market price paid by central government for the shares, and less central government capital contributions to Equinor ASA and companies attending to central government interests in petroleum activities, as well as financial transactions relating to petroleum companies in which central government has ownership interests.

1. Government of Norway, Ministry of Finance, Act relating to the Government Pension Fund.

Modelling and calculation assumptions

Our model of Equinor's international oil and gas segment:

- includes costs for assets approved from 2001. For clarity, this:
  - includes costs incurred from 2001 but prior to an asset's FID
  - includes costs for assets that have not yet reached FID (including those that achieve FID in 2100, which presumably represent unsuccessful exploration and development)
  - ignores any spend prior to 2001.
- CFFO = free cash flow + capex
  - Capex = capex (as per Rystad) + exploration capex + net acquisition costs.
  - Free cash flow, capex (as per Rystad) and exploration capex are from Rystad Energy.
  - Net acquisition costs are from S&P and include transactions where the counterparty is headquartered outside of Norway – irrespective of the assets' location.
  - these values are nominal
- Capex is funded from CFFO within each year. Where there is insufficient CFFO, additional capital from outside the segment covers the shortfall.
- CFFO in excess of capex is distributed as dividends and invested in the GPFG, as per the assumptions below.
- Terminal values are discounted cash flow as of the end of 2023 (the latest date that full-year GPFG returns are available). They are based on Rystad cost and production data, a forward price deck, and a discount rate that incorporates country-specific risk.

Modelling and calculation assumptions

Our model of GPFG equities is based on:

- returns on the GPFG's equities asset class, on a USD basis, compounded monthly. The equities asset class was selected because its risk profile is most closely aligned with the risk profile of Equinor's international oil and gas segment
- cash flows being invested (and distributions being reinvested) at the end of the year that they are generated.

Unless otherwise stated:

- all relevant values are expressed as Equinor share
- currencies are USD
- emissions refer to scope 3 emissions, calculated by multiplying oil and gas production by combustion emission factors.

Rystad Energy provided the asset-level data and the model used to calculate the terminal value, with most data extracted in November 2024. It is not responsible for any conclusions drawn from the data, and ACCR retains responsibility for any subsequent analysis, including assumptions used or errors made.

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