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Equinor's challenge: which way to Paris?

April 2024

Our request

Equinor’s investors to:

- support the shareholder resolution filed by Sarasin and Partners LLP and other financial institutions
- engage with Equinor on the importance of both:
    - stopping exploration for new oil and gas reserves worldwide
    - halting the development of unapproved oil and gas projects outside of Norway.

We think these measures will both protect shareholder value and move Equinor towards longer term Paris alignment, by avoiding 67% of the emissions from Equinor’s unapproved projects.

The analysis uses independent data sourced from the IEA and Rystad Energy.

Rystad has verified that the data and methodologies have been used appropriately, but is not responsible for our assumptions or conclusions.

Research context

Equinor is taking commendable steps towards the transition, including:

- managing its scope 1 emissions intensity
- being an early leader in offshore wind.

But its Energy Transition Plan still falls short of the Paris Agreement goals, with investors calling for more.

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What does Paris alignment look like for Equinor?

In terms of fossil fuel production, four key changes are suggested for Equinor to reduce emissions “in line with the Paris Agreement”. The first two are particularly commercially pragmatic recommendations and are the focus of the research in this presentation.

1. Stopping exploration of new oil and gas reserves worldwide

2. Halting development of pre-FID fossil fuel projects outside of the Norwegian Continental Shelf (NCS).

This would avoid 67% of the emissions from Equinor’s unapproved projects.

Although not the focus of our research, becoming Paris-aligned would also require Equinor to:

- stop developing Norwegian fossil fuel projects

- develop a strategy around winding down some operating assets.

Stopping exploration for new oil and gas reserves worldwide

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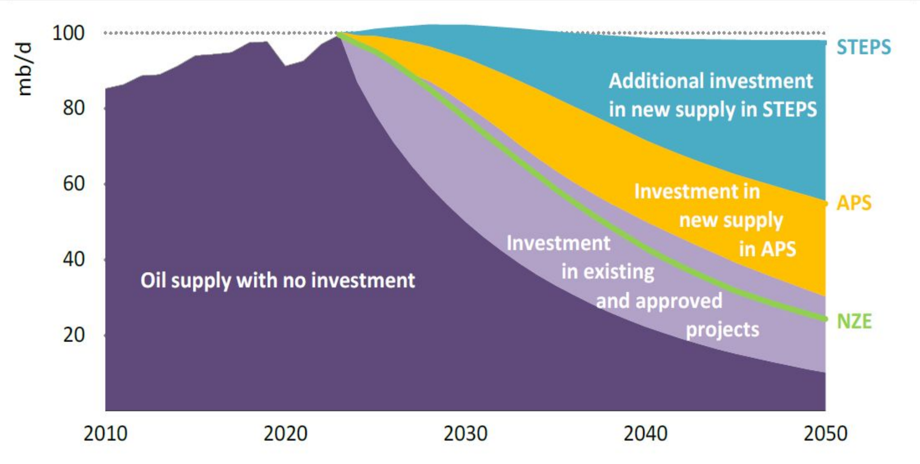
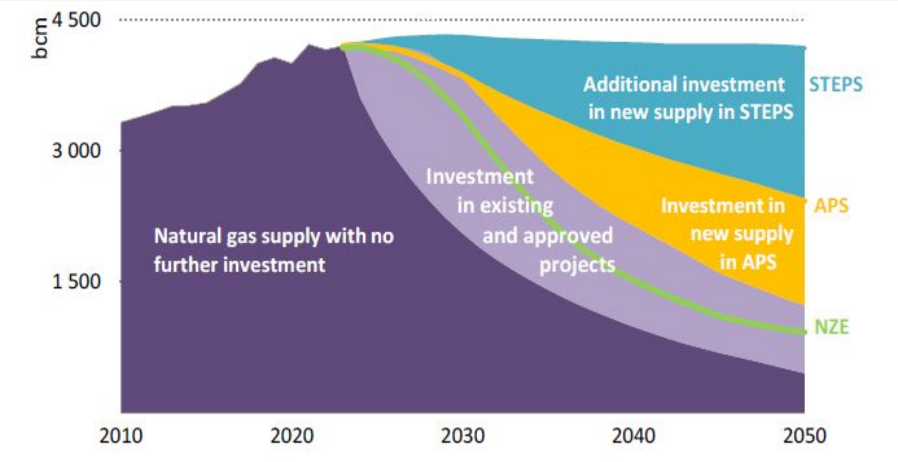
Why no new exploration?

Further exploration has no role in the energy transition given that:

- the IEA says "companies aligned with the results of the NZE scenario would not invest in new exploration"[1]
- existing and approved projects can already supply all future oil and gas demand (see charts below).

Supply from existing and approved oil and gas projects already meets demand to 2050 in the NZE scenario





[1] IEA, The Oil and Gas Industry in Net Zero Transitions, 2023, p149

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Exploration reduces access to capital for the energy transition

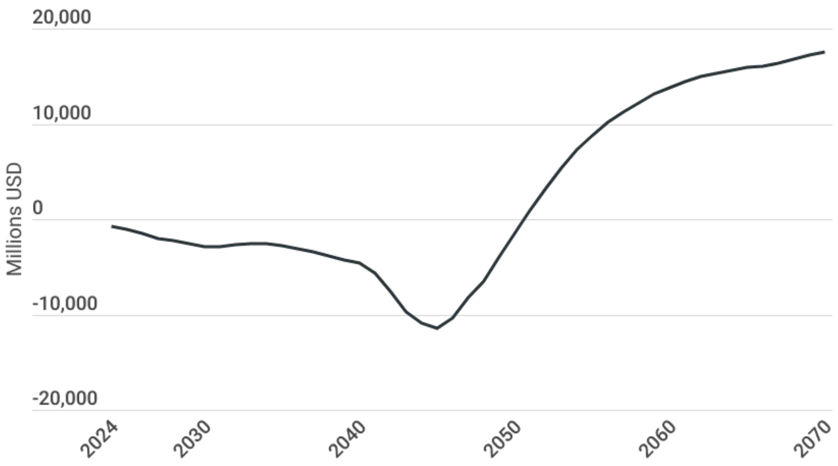
Equinor states that exploration provides "financial muscle" to support the energy transition.[1]

ACCR's modelling shows exploration is reducing, rather than providing, access to capital that can fund the energy transition over the coming decades.

Although exploration is inherently uncertain, this is evident:

- at a portfolio level, given Rystad data shows that Equinor is unlikely to see positive cash flow from undiscovered projects until after 2050 (see chart)
- even at a project level, given Equinor will unlikely be able to reinvest cash flows from exploration activities towards the energy transition due to its track record of taking 13 years to start production.

Equinor's exploration activities cash flow negative until post-2050



Source: Rystad Energy, ACCR modelling

[1] Equinor, Why are we continuing with oil and gas? Here are two of the reasons, 2024

Untimely and potentially unhelpful energy supply

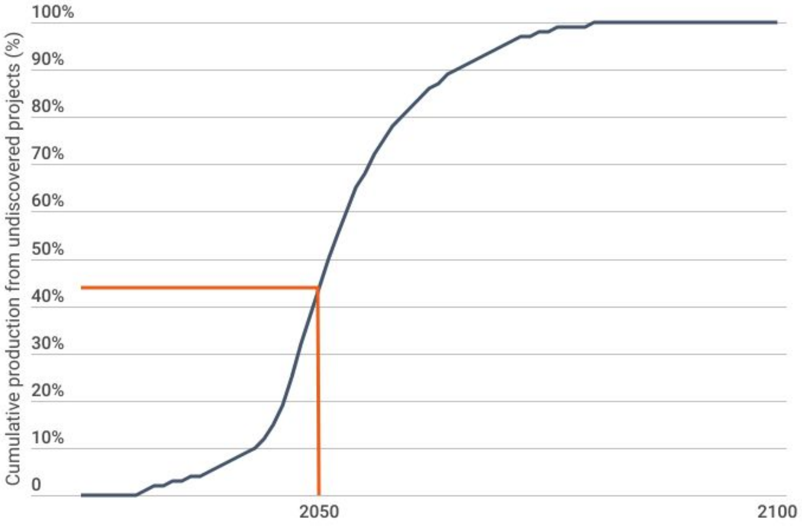
Equinor states that oil and gas exploration is needed to help meet the world's need for a "safe and stable energy supply".[1]

ACCR analysis shows that 55% of the reserves from Equinor's future-discovered fields will remain unproduced in 2050 (see chart).

This means Equinor's new discoveries will:

- produce a surplus beyond the requirements of a Paris-aligned world
- provide most of their fossil fuel energy too late to help transition to a net-zero economy by 2050
- risk locking in fossil fuel dependence post-2050.

Fossil fuel lock-in risk from continuing exploration



Source: Rystad Energy, ACCR modelling

[1] Equinor, [Why are we continuing with oil and gas? Here are two of the reasons](), 2024

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Equinor’s unapproved international oil and gas projects are not Paris-aligned

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Oil and gas emissions are higher than when the Paris Agreement was signed

Why is this happening?

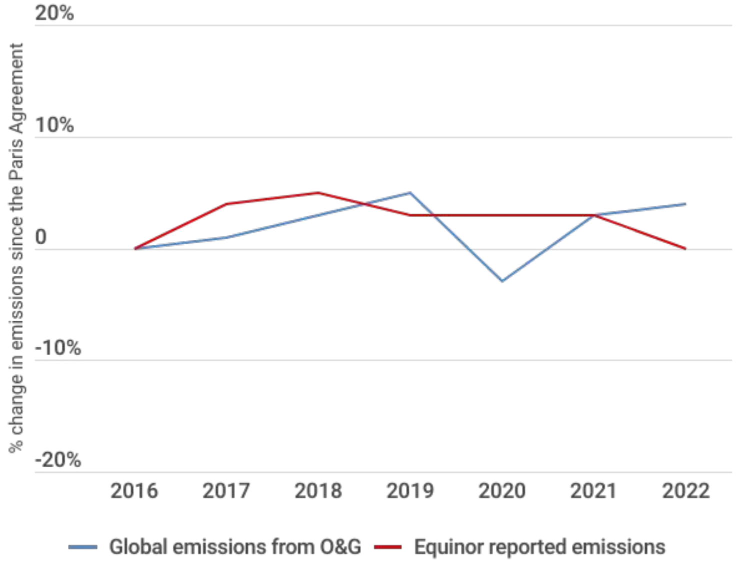
Company climate targets are subject to gaming. Examples include:

- using intensity targets that don't necessarily reduce absolute emissions
- treating divested emissions as reductions
- selecting base years with higher-than-normal emissions to exaggerate the impact of any reductions.

What is the end result of this?

Financial assumptions that are not Paris-aligned continue to justify investment that is not Paris-aligned.

Global emissions from oil and gas have increased since the Paris Agreement, while Equinor's emissions have not decreased



Source: IEA WEO extended datasets, company disclosures, ACCR modelling

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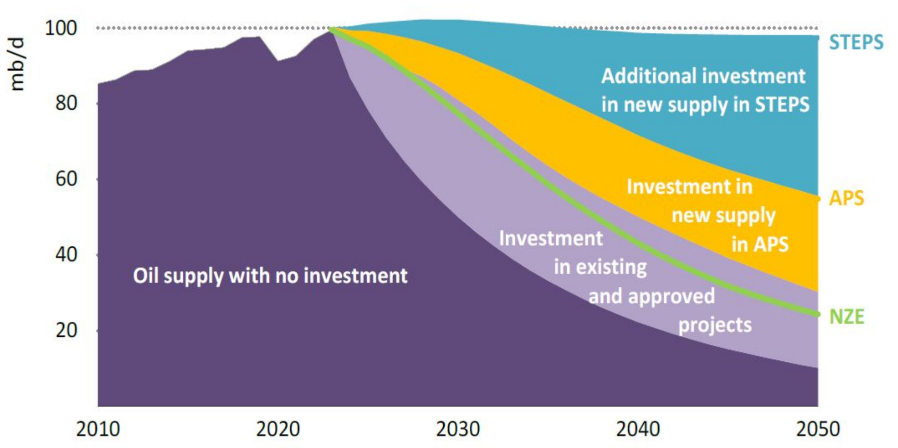
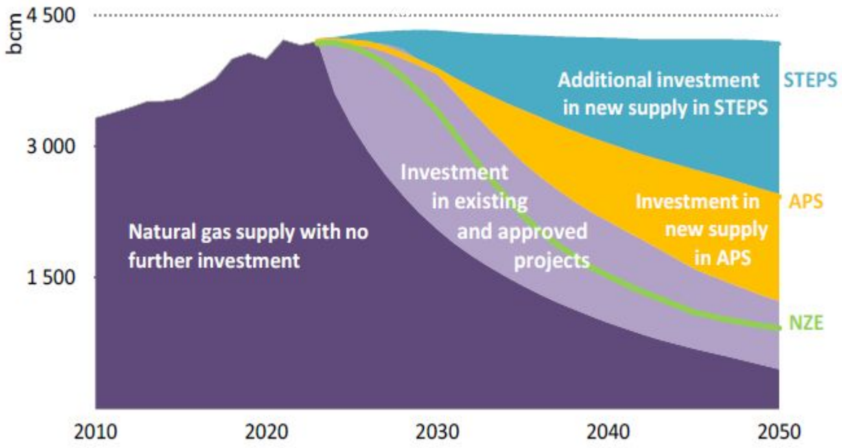
IEA fossil fuel supply charts

Global oil supply by scenario



Global gas supply by scenario



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ACCR’s NZE alignment methodology

Global least-cost evaluation of NZE alignment in unapproved fossil fuel projects

Objective

To test whether future oil & gas projects are aligned with Paris-aligned scenarios[1] through a global industry lens.

At a high level, our methodology involves:

1. assuming all operating and under-development projects operate until end of life
2. ranking all unapproved projects by break-even price
3. assessing each unapproved project to see if it is ‘required’ to meet demand levels under the NZE scenario, after accounting for operating and under-construction facilities.

The benefits of this method include that it:

- removes the opportunity for companies to use a range of self-selected voluntary decarbonisation targets to claim Paris alignment
- provides investors with valuable insight into financial assumptions, and therefore investment decisions, which are not Paris-aligned.

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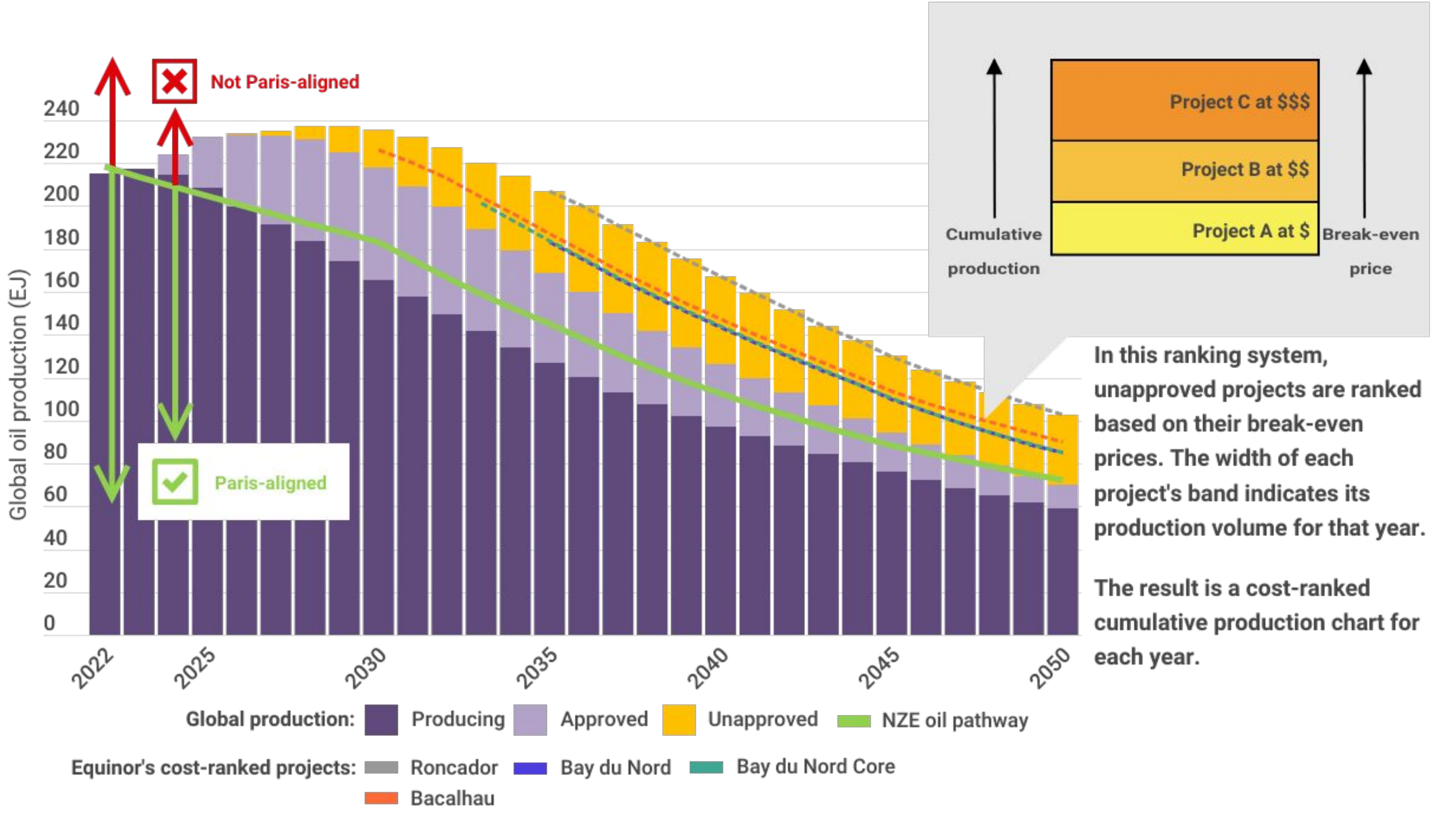
[1] ACCR currently views the IEA's NZE pathway as the best tool for Paris-alignment assessments. It is based on IPCC temperature outcomes (1.5°C in 2100, with 50% certainty) and encompasses energy security, recent technology and geopolitical events, and equity, with comprehensive sectoral and geographic data. Global progress is lagging behind NZE goals, leading to increasingly challenging assumptions like ending global deforestation by 2030 and large-scale carbon removal by 2050, highlighting the urgency for actions to align with this pathway.



In this ranking system, unapproved projects are ranked based on their break-even prices. The width of each project's band indicates its production volume for that year.

The result is a cost-ranked cumulative production chart for each year.

Equinor's international unapproved oil projects are neither aligned with the Paris Agreement nor low-cost

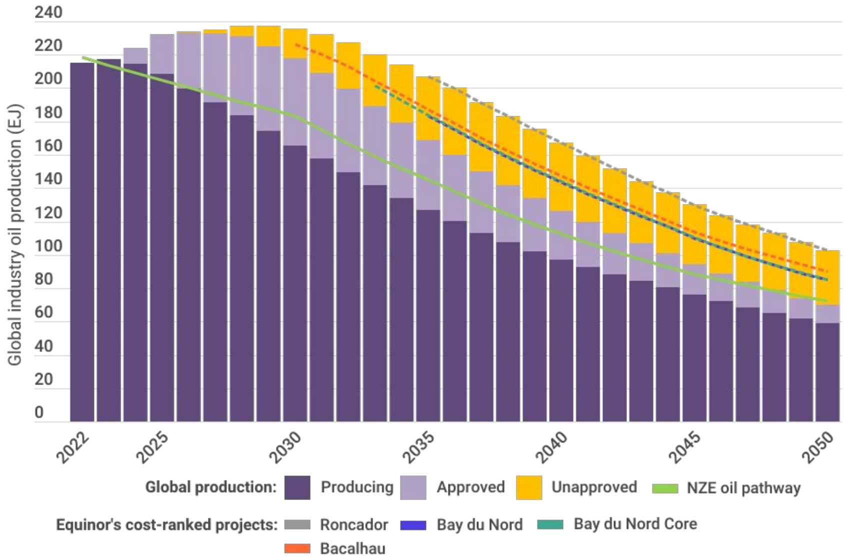
Equinor's international unapproved oil projects:

- are not aligned with the IEA's NZE pathway (see chart)
- sit well outside the top quartile of unapproved projects on a least-cost basis
- have long-term production profiles that extend well beyond 2050, creating risk of locking in fossil fuel dependence

Note: The dotted line shows the relative break-even price of the project compared to all other unapproved oil projects.

Global oil supply

No projects are Paris-aligned and all sit within the 40th-100th cost percentile of unapproved global projects

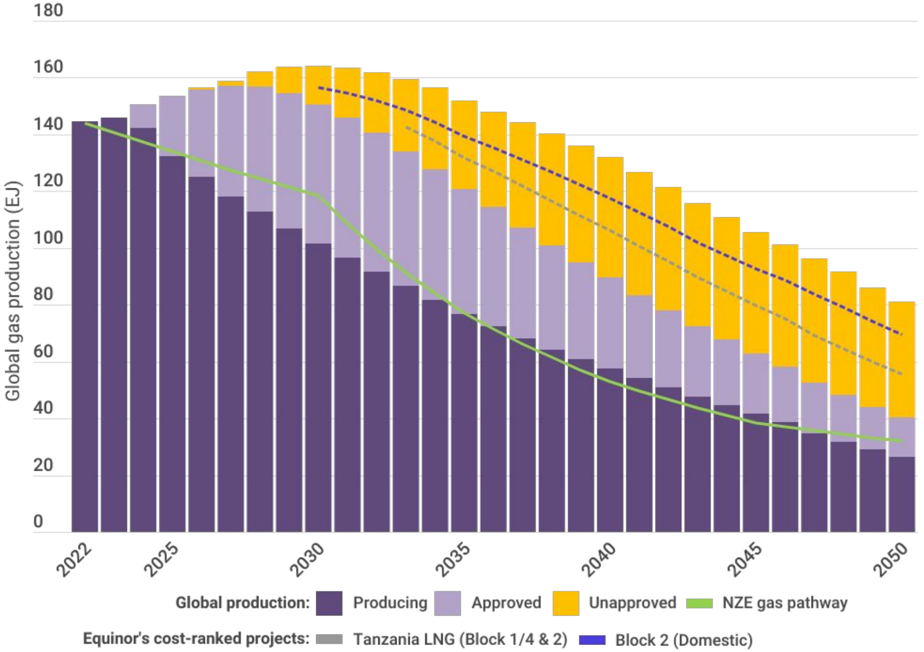


Source: Rystad Energy, IEA extended dataset, ACCR modelling

Equinor's international unapproved gas and LNG projects are also neither aligned with the Paris Agreement nor low-cost

Global gas supply

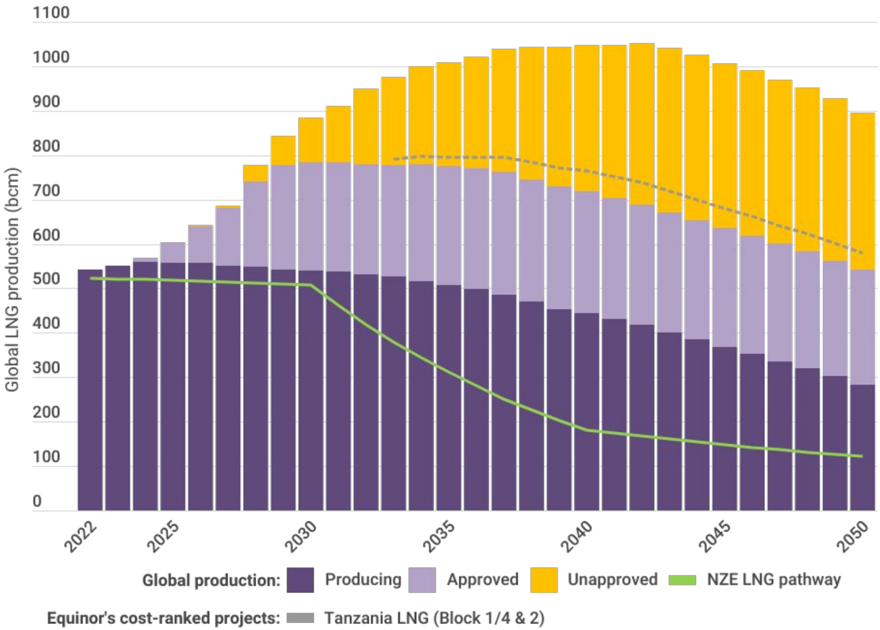
Equinor's unapproved projects are not aligned with the Paris Agreement and sit well outside the top quartile of unapproved projects on a least-cost basis



Source: Rystad Energy, IEA extended dataset, ACCR modelling

Global LNG supply

Equinor's unapproved projects are not aligned with the Paris Agreement. Given the expected LNG glut, there is no room for already approved projects in the NZE scenario



Source: Rystad Energy, IEA extended dataset, ACCR modelling

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Equinor's international oil and gas portfolio has not been profitable

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Equinor not creating value by increasing international production - DCF analysis

Equinor's activities outside of Norway are not generating positive NPV

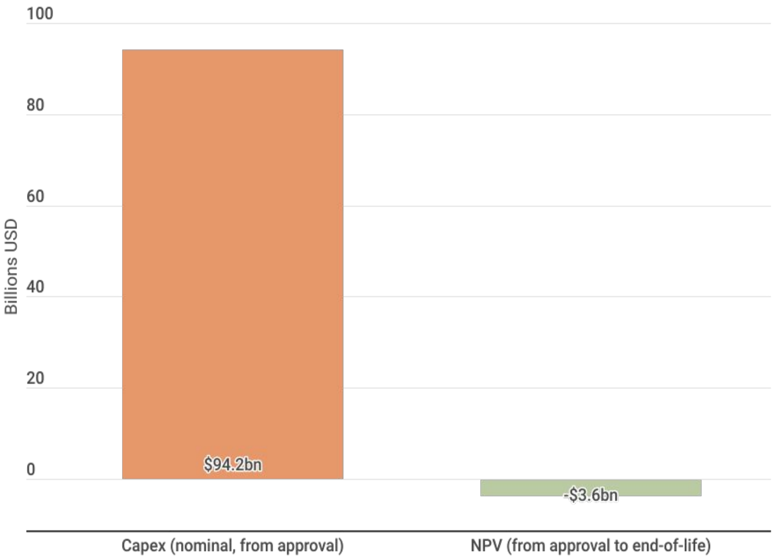
Our DCF approach estimates that, over their lifetime, Equinor's international projects will have:

- an NPV of -$3.6 billion in value, which excludes the $14.5 billion (nominal, net) acquisition and pre-FID costs
- absorbed $94 billion in capex for development.

Further international investment bring specific risks to Equinor, because it:

- doesn't have a proven track record
- doesn't always have operational control
- continues to take on emerging markets country risk.

Close to $100bn of international capex is forecast to deliver -$3.6bn of NPV



Source: Rystad Energy, ACCR modelling

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Other data validates the lack of value from international projects

Equinor's accounts show that its US operations alone suffered impairments of $21.5 billion between 2007 and 2019.[1]

Over 22 years, the key driver of shareholder returns (TSR) has been oil price, not international production growth.

This correlation is similar for others in the industry.

We have broken the TSR into two distinct phases:

1. **2001 (IPO) - 2007:** The TSR was 32% p.a., which correlated with a 148% oil price appreciation.
2. **2007 - 2023:** The TSR was significantly lower at 5% p.a., as the oil price remained broadly flat.

Equinor's TSR relative to production growth and the oil price

	IPO in 2001 - 30/06/2007	1/07/2007 - 31/12/2023
WTI oil price growth(%)	148%	1%
Domestic production growth ex-Norsk Hydro merger (thousand barrels per day)*	-36	-43
International production growth ex-Norsk Hydro merger (thousand barrels per day)**	184	272
TSR (USD basis, %p.a.)	32%	5%

* Production growth is estimated from 31/12/2000 - 31/12/2007

** Production growth is estimated from 31/12/2007 - 31/12/2023

Source: Bloomberg Finance L.P.; Used with permission of Bloomberg Finance L.P., ACCR modelling

[1] PwC, Equinor in the USA: Review of Equinor's US onshore activities and learnings for the future, p6

Equinor’s capital allocation strategy is optimistic and sensitive to commodity prices

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Equinor is not planning to reduce its capital allocation to unsanctioned oil and gas projects

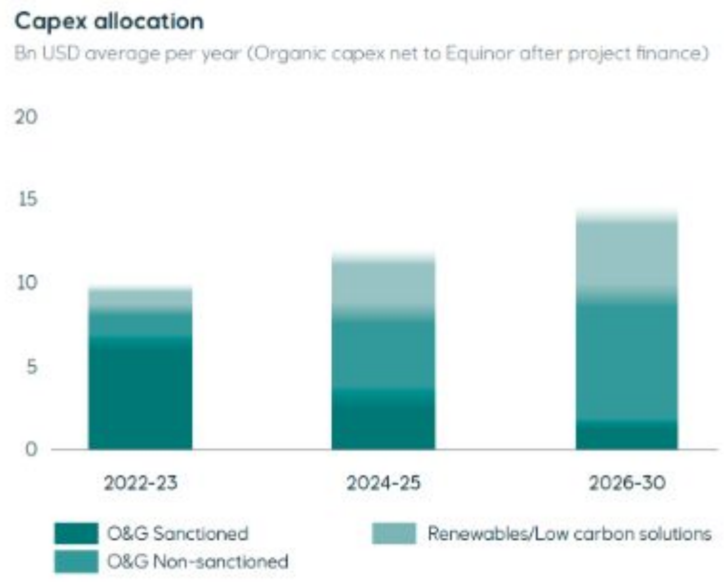
Equinor is planning to allocate more capital to oil and gas projects, including non-sanctioned projects, despite:

- none of its projects being aligned with the NZE
- an underwhelming financial record for its international oil and gas portfolio.

We find that its:

- project portfolio does not justify higher oil and gas investment
- oil price assumption will encourage it to increase oil and gas investment relative to peers.

Equinor is planning on increasing capex on unsanctioned oil and gas projects



Source: Equinor's 2022 Energy Transition Plan

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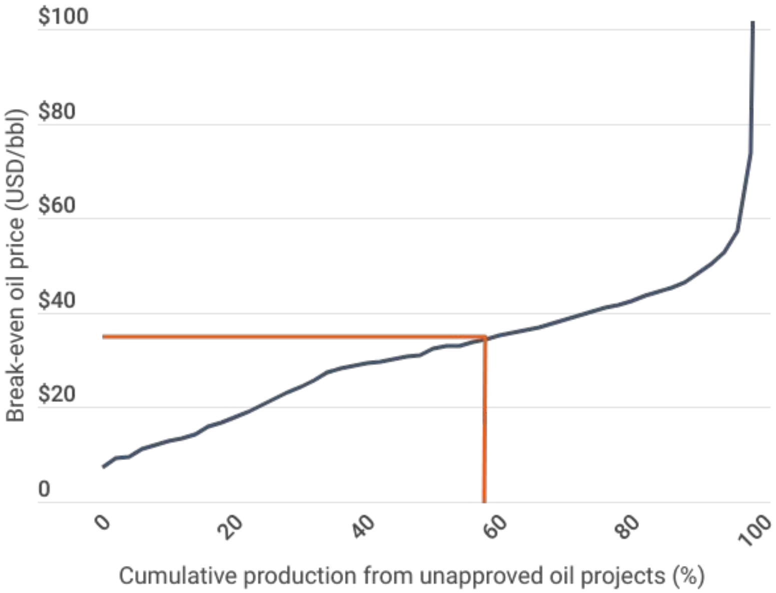
Equinor’s international pre-FID portfolio does not appear to have a cost advantage that justifies sanctioning these projects

We found Equinor’s new projects are more expensive than those of its peers:

- Equinor estimates its projects coming online in the next 10 years have a break even price of $35/bbl.
- This is more expensive than 60% of global unsanctioned oil projects.

Equinor’s average forecast of $35 per barrel is more expensive than ~60% of all global unapproved oil projects



Source: Rystad Energy, ACCR modelling

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Equinor's medium-term (2029) oil price assumption is higher than any of its peers'

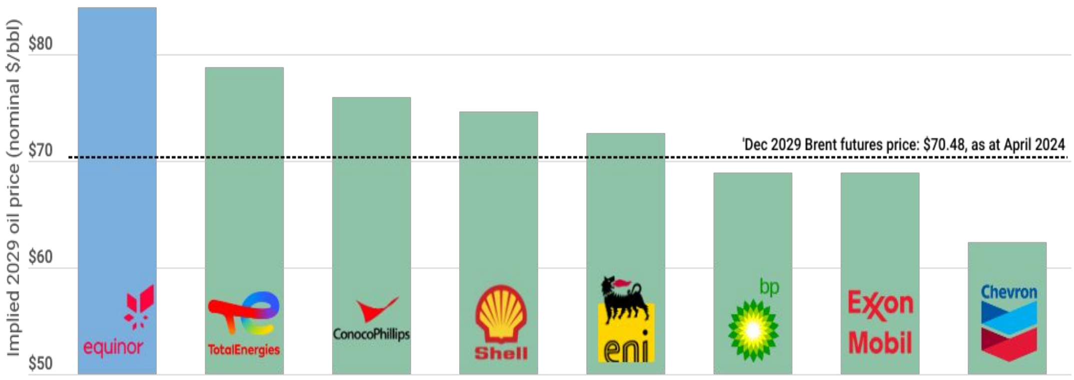
We found that **lowering Equinor's oil price assumption to the Brent futures price slashed the forecast NPV of Equinor's pre-FID international projects by 50%**. Cost and schedule slips are a further risk to project value.

Their current optimistic oil price forecast[1] is $75/bbl (2023, real) which is:

- the highest of its peer group
- ~20% above the 2029 Brent futures price.

Equinor has a track record of optimistic forecasts, as in 2013, when it predicted a 3-year payback on new international investments assuming $110/bbl oil prices.

Equinor's medium-term oil price assumption is higher than any of its peers' and 15% higher than the average



Source: Company disclosures, Bloomberg Finance L.P.; Used with permission of Bloomberg Finance L.P, ACCR modelling

[1]Equinor, 2024 Capital Markets Update, p31

Ceasing global exploration and international developments will support Equinor’s share price

Ceasing global exploration and new international developments may support Equinor’s share price, because these changes:

- will provide an immediate and sustained free cash flow boost
- create minimal downside risk to long-term free cash flow.

“”

Equinor said on Wednesday it would cut its overall cash returns to shareholders this year by $3 billion, sending its shares down 7%.

Reuters, 7 Feb 2024

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Our request

Equinor’s investors to:

- support the shareholder resolution filed by Sarasin and Partners LLP and other financial institutions
- engage with Equinor on the importance of both:
    - stopping exploration for new oil and gas reserves worldwide
    - halting the development of unapproved oil and gas projects outside of Norway.

We think these measures will both protect shareholder value and move Equinor towards longer term Paris alignment, by avoiding 67% of the emissions from Equinor’s unapproved projects.

Thank you

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How Equinor assesses its climate alignment

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Equinor's NCI ambitions are not Paris-aligned and its strategy appears to put its NCI ambitions out of reach

Equinor's NCI ambitions are not Paris-aligned because:

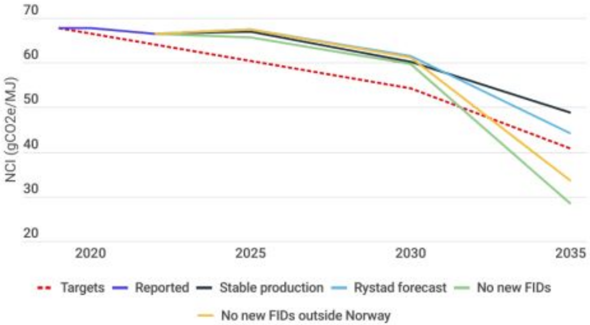
- managing scope 3 emissions on an intensity basis is not scientifically credible. It does not require a reduction in emissions, and could be met by diversifying a portfolio.
- based on Equinor's own disclosures, its NCI ambitions are insufficient to align with the IEA's NZE.

We also find that Equinor cannot meet its 2030 NCI ambition. Meeting its 2035 NCI ambition would require curtailing fossil fuel production, even if it meets the upper range of its renewable and CCS targets.

Equinor's NCI ambitions are not aligned with the NZE trajectory

Source: Company disclosures

Equinor's strategy appears inconsistent with its NCI ambitions



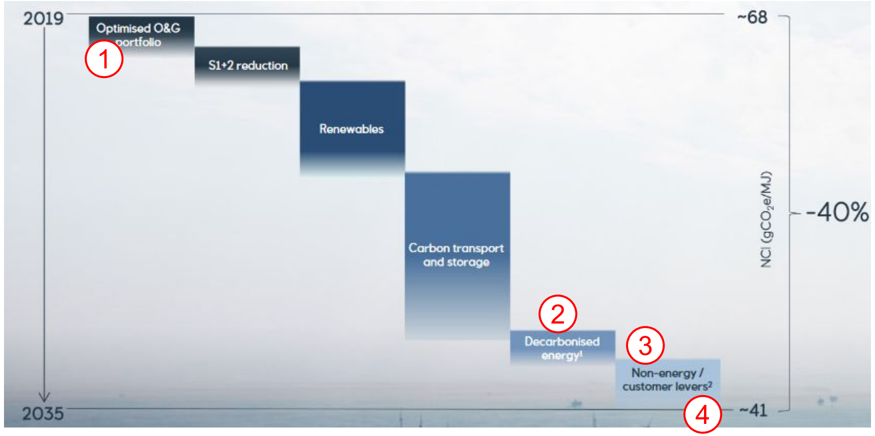
Source: Company disclosures, ACCR analysis

But didn't Equinor explain how it will meet its 2035 NCI ambition?

We disagree with Equinor's assessment of how it could reach its 2035 target

1. Its "Optimised O&G portfolio" appears to refer to divestment.
   - Divestment transfers, rather than reduces, emissions.
   - Treating divestments as reductions is inconsistent with the GHG Protocol's Corporate Accounting Standard.[1]
2. "Decarbonised energy" refers to blue hydrogen and gas power with CCS. We didn't include this because:
   - the additional CCS requires either an increase in the CCS target, or double-counting of CCS
   - the inefficiencies of making hydrogen and applying CCS to power generation mean Equinor will increase its NCI if it combines its natural gas with CCS prior to selling it.
3. The "Non-energy" use of fossil fuels will only increase its market share by ~2% from 2022-2030 under the IEA scenario that most closely aligns with Equinor's $75 oil price assumption (the APS).
4. "Customer levers" refers to offsets. We did not model the use of offsets towards its NCI ambition, since Equinor has rightly said it will limit the use of offsets to meet its scope 1 and 2 ambition.

Equinor's illustrative pathway for meeting its 2035 NCI ambition



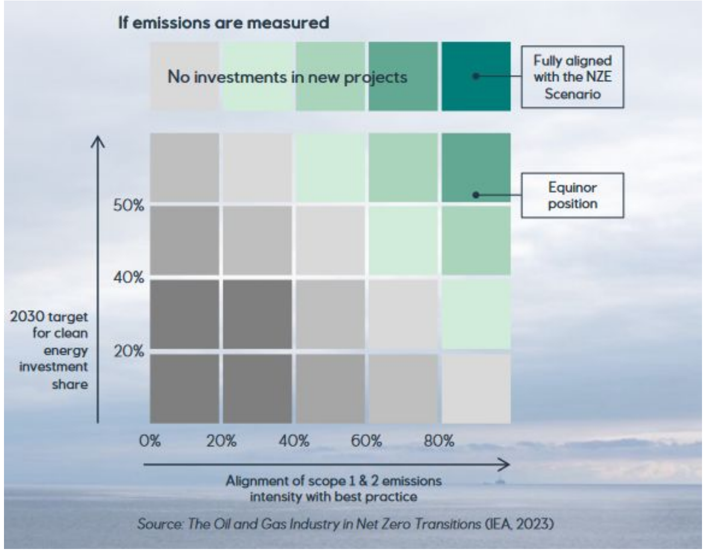
Equinor has misinterpreted the IEA's O&G Paris alignment metrics

1. Equinor's domestic scope 1 and 2 emissions intensity is rightly acknowledged by the IEA as best practice. Equinor should be commended for this.

2. We think Equinor's interpretation of capex spend is misguided because the IEA has a radically different set of assumptions, including that:
   - oil prices drop to $42/bbl by 2030, 45% lower than Equinor's reference case
   - oil and gas companies no longer allocate capital to new oil and gas fields
   - governments will reduce taxes on oil and gas revenue
   - investors will accept lower returns

The IEA does not present either of these metrics on a sliding scale, so we are unsure why Equinor has decided to present this as a graduated matrix.

Equinor's presentation of how the IEA assesses alignment with the NZE



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SARASIN
& PARTNERS

Equinor Shareholder Resolution

April 2024

Shareholder Resolution

April 2024

Resolution:
In keeping with Equinor ASA's commitment to support the goals of the Paris Agreement, and considering the Norwegian Government's explicit expectations for the company to align actively with the Paris Agreement as per its statement at Equinor's 2023 AGM, the general meeting asks the Board to update its strategy and capital expenditure plan accordingly.

The updated plan should specify how any plans for new oil and gas reserve development are consistent with the Paris Agreement goals.

Co-filers:

- Sarasin & Partners LLP (UK investment manager)
- Sampension (Danish pension scheme)
- West Yorkshire Pension Fund (UK pension scheme)
- Achmea Investment Management (Dutch investment manager)

Shareholder Resolution supporting statement

April 2024

Goal: Promote alignment with Paris Agreement goals to underpin long-term economic growth and investment returns

Two parts:

- Risks to long-term investor capital from Equinor's strategy and capex plans
- Evidence that Equinor's strategy is not consistent with the Paris goals

Risks to capital

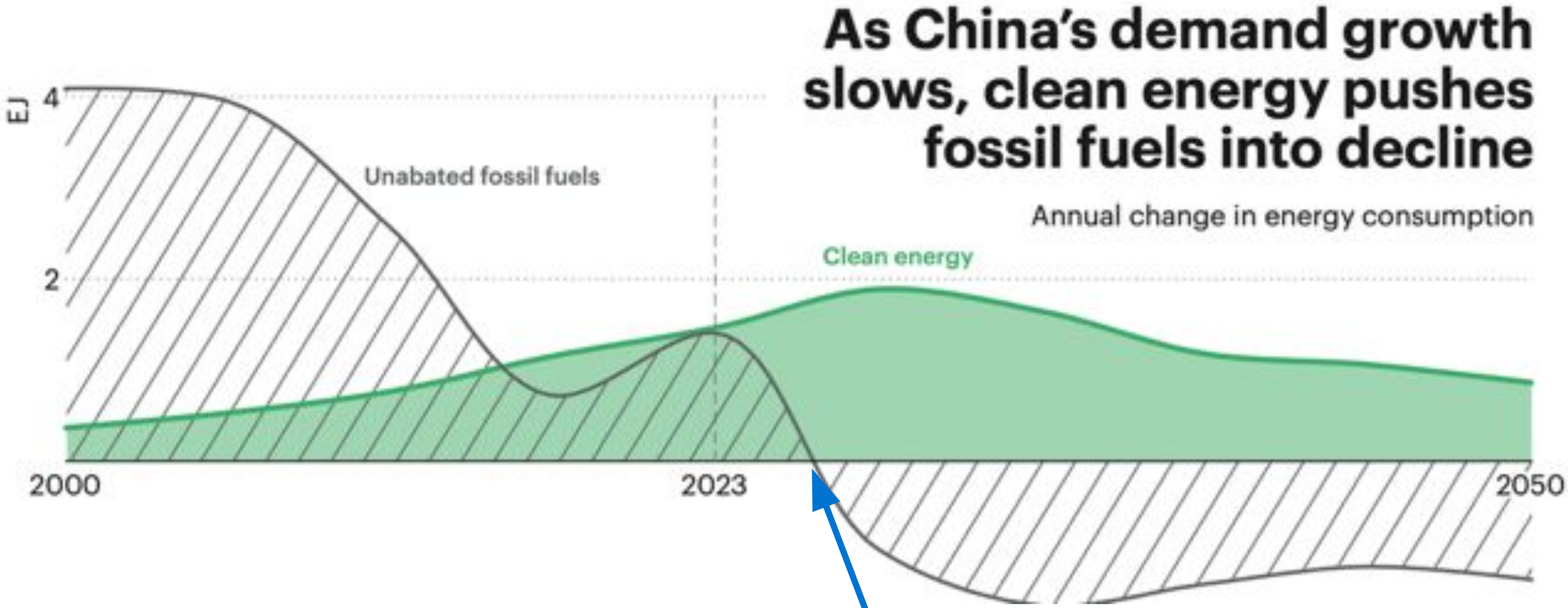
- Risks of future impairments as demand falls faster than anticipated
- Legal and regulatory risks
- Systemic risks to economic growth and long-term investment returns

Strategy not aligned with the Paris goals

- Equinor's Transition Plan makes clear its emissions profile lies above a 1.5C pathway
- Oil and gas production plans exceed what would be consistent with 1.5C pathway
- Capex plans exceed what would be consistent with 1.5C pathway

IEA's oil and gas projections in current pathway

Annual change in consumption under Stated Policies Scenario



Source: IEA, World Energy Outlook 2023, October 2023

Unabated fossil fuel demand goes into decline by 2030

Equinor predicating capex/ IRRs on sustained elevated prices

Extract from 2023 Financial Statements

Equinor's long-term oil & gas price projections are high; its carbon tax projections are low

	Management's price assumptions[1]	Net Zero Emissions (NZE) by 2050 Scenario[4]	Announced Pledges Scenario (APS)[5]
Brent blend, 2030	78 USD/bbl	46 USD/bbl	79 USD/bbl
Brent blend, 2040	73 USD/bbl	37 USD/bbl	72 USD/bbl
Brent blend, 2050	68 USD/bbl	28 USD/bbl	65 USD/bbl
TTF, 2030	9.1 USD/MMBtu	4.5 USD/MMBtu	6.8 USD/MMBtu
TTF, 2040	9.5 USD/MMBtu	4.4 USD/MMBtu	6.2 USD/MMBtu
TTF, 2050	9.5 USD/MMBtu	4.3 USD/MMBtu	5.6 USD/MMBtu
EU ETS [2), 3)], 2030	123 USD/tCO_2	146 USD/tCO_2	141 USD/tCO_2
EU ETS [2), 3)], 2040	150 USD/tCO_2	214 USD/tCO_2	182 USD/tCO_2
EU ETS [2), 3)], 2050	176 USD/tCO_2	261 USD/tCO_2	208 USD/tCO_2
Illustrative potential impairment (USD)		~10.0 billion	~3.0 billion

Management oil price assumptions similar to APS; materially above NZE

Management gas price assumptions materially higher than both

Management carbon price assumptions materially lower than both

Capital strength highly sensitive to oil price assumptions. Annual Report 2023:

- 42% hit to NPV from 1.5°C-stress test
- $10bn impairment risk to upstream and intangible assets – equivalent to c20% equity

Project pipeline risk (ACCR 2024 analysis of unsanctioned international projects)

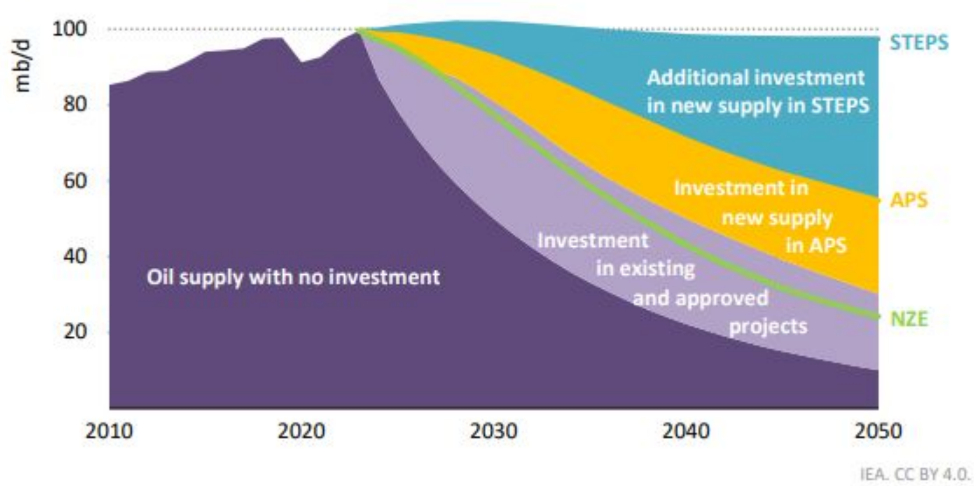
- 50% hit to NPV using current forward Brent oil price
- 55% of production after 2050.

Note: Brent blend is an oil price; TTF (Title Transfer Facility) is a virtual trading point for natural gas in the Netherlands; ETS (Emission Trading Scheme) is the EU's carbon price

Reserve development plans exceed 1.5°C pathway

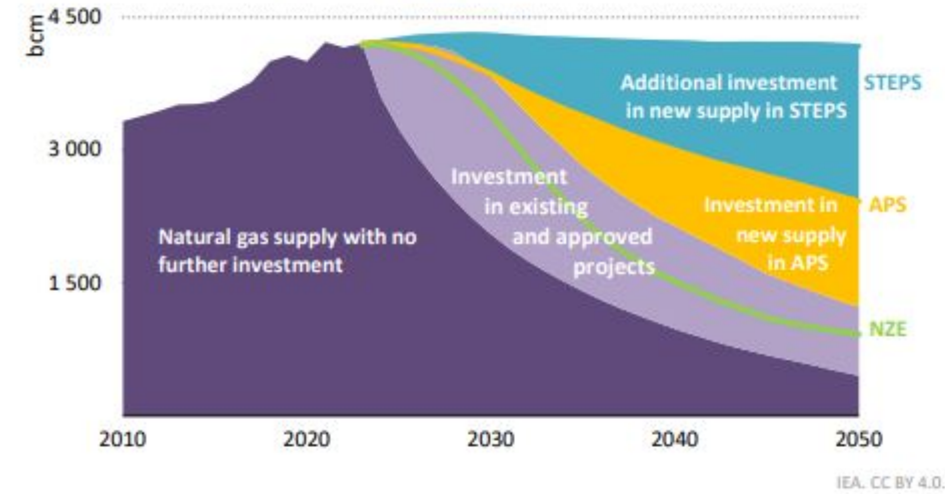
IEA: No new oil or gas reserves needed

Figure 1.11 ▷ Oil supply by scenario, 2010-2050



New conventional oil projects are needed in the APS, but no new projects are approved for development in the NZE Scenario and higher-cost projects are also closed from the 2030s.

Figure 1.13 ▷ Natural gas supply by scenario, 2010-2050



In the NZE Scenario, no new long-lead time gas projects are required and some production capacity is surplus to demand. In the APS, 1 200 bcm of new production is required in 2050.

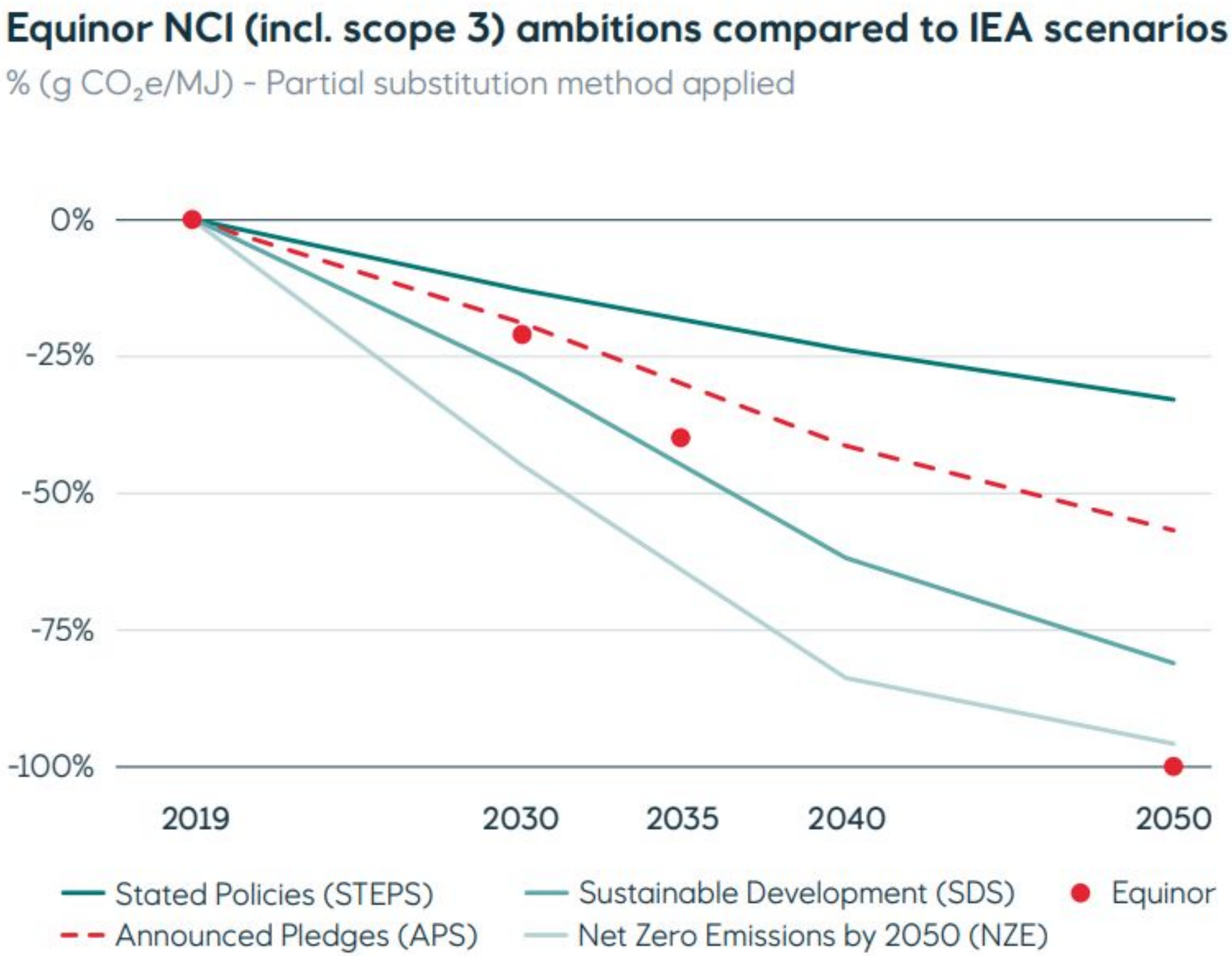
Source: IEA. "*The Oil and Gas industry in Net Zero Transitions*", December 2023

Equinor's planned capex in new fields (including sanctioned & unsanctioned) will be 20 to 30% of total capex between 2024 and 2030

ACCR (Mar 2024): Costs of unsanctioned oil and gas projects lie above competitors, so would be uneconomic in NZE pathway

Equinor's Transition Plan lies above 1.5°C pathway

Equinor's latest production plans will shift its pathway further away from 1.5°C



"Equinor is committed to long-term value creation in support of the goals of the Paris Agreement. We aim to be a leading company in the energy transition and have set an ambition to reach net zero by 2050."
Equinor, Integrated Annual Report, 2022

Source: Equinor, "Transition Plan", 2022, p. 12

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