Climate risk and resilience

Our business needs to be resilient to multiple risks including those posed by climate change. These risks are related to both the energy transition and the physical effects of changes in climate. Equinor assesses both the upside and downside risks and determines how these can influence the company.

What are the direct climate-related risks?

- changes in the demand for our oil, natural gas and electricity production.
- increased costs related to mitigating physical changes of climate change, such as carbon price, and new taxes and fees.
- new technologies that could disrupt energy markets over time.
- lost business opportunities due to political decisions.
- Investment criteria and capital allocation
- To ensure that we have a robust portfolio, we address climate-related risk in our decision making. Scenario analysis informs our economic planning assumptions and break-even targets, and an internal CO_2 price helps us assess the robustness of investment proposals.

When a project is sanctioned, it is assessed on multiple criteria:

- **Net present value:** We assess value creation for the company and our shareholders.
- **Break-even price:** We use a break-even target at the time of investment decision for all oil and gas projects. If the project has a break-even higher than the target, it will normally not be sanctioned.
- **CO_2 intensity:** All oil and gas projects are measured on scope 1 CO_2 intensity (upstream). Our focus on CO_2 intensity means that we are one of the companies with the lowest CO_2 intensities on scope 1 emissions in the industry.

Carbon pricing: In areas with no or low carbon price, we apply an internal carbon price of at least USD 56 per tonne CO_2 to provide an additional layer of robustness.
The break-even price and the CO_2 intensity metrics are only applicable for upstream oil and gas projects.
The carbon pricing metric is applicable for both upstream and downstream oil and gas projects as well as electrification projects.

Additional criteria evaluated in an investment decision include safety, security and sustainability, optionality, strategic value, country risk, operational capacity and capability.

Testing price sensitivities

When sanctioned, all projects are tested with different price sensitivities to ensure that the project remains profitable in a low-price world, but also to illustrate a possible upside depending on how energy prices develop.

Testing resilience

Since 2016 we have been testing the resilience of our portfolio against the scenarios from the IEAs World Energy Outlook (WEO) report. Resilience in this context is defined as financial robustness and the ability to generate positive cash flow in a low-price environment.

Carbon pricing

We apply a 56 USD per tonne CO_2 price to all assets and projects, except for projects in countries where the actual cost of carbon is higher, such as in Norway. This carbon price is included in all investment decisions and is part of our break-even calculations.