



› Historical tax balances

OKEA ASA

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# Introduction to Norwegian petroleum tax

## Tax rates

- The Norwegian petroleum taxation system is based on the rules for ordinary corporate taxation and are set out in the Petroleum Taxation Act, adopted in 1975. In addition to the ordinary corporate tax, oil companies are subject to a special petroleum tax. The total tax rate is 78 percent.

Petroleum tax	2013	2014	2015	2016	2017	2018	2019
Company tax	28%	27%	27%	25%	24%	23%	22%
Special petroleum tax	50%	51%	51%	53%	54%	55%	56%
<b>Total tax rate</b>	<b>78%</b>	<b>78%</b>	<b>78%</b>	<b>78%</b>	<b>78%</b>	<b>78%</b>	<b>78%</b>

## Net profit – basis for tax

- In general, only the company's net profit is taxable. Deductions are allowed for all relevant costs, including costs associated with exploration, research and development, financing, operations and decommissioning.
- Consolidation between fields is allowed. This means that losses from one field, or exploration costs, can be written off against the company's income from operations elsewhere on the Norwegian Continental Shelf. Also, costs related to onshore organisation managing and supporting offshore activities are deductible in the special petroleum tax rate.

## Financial items

- Interest expenses and currency losses/-gains are partly deductible in the Special Petroleum Tax regime, according to the formula in shown below. OKEA has bond loans denominated in USD. Both realised and unrealised foreign exchange loss/-gain can be included in the formula.

$$\text{Deductible finance cost offshore} = (\text{Interest expenses} + \text{fx loss/-gain on IBD}) * \frac{50\% \text{ of tax value offshore assets}}{\text{Interest Bearing Debt (IBD)}}$$

- IBD=Interest Bearing Debt

## Capex deductions and uplift

- The fiscal regime on the Norwegian Continental Shelf provides an attractive backdrop for investments. When the taxable income is calculated, investments are written off using straight-line depreciation over six years starting from the year the expense was incurred. An additional uplift is granted on capital expenditure. This uplift represents an additional depreciation spread over four years and is deductible under the special petroleum tax only.

Uplift	2013	2014	2015	2016	2017	2018	2019
Uplift per year	5.5%	5.5%	5.5%	5.5%	5.4%	5.3%	5.2%
Total uplift over four years	22,0 %	22,0 %	22,0 %	22,0 %	21.6%	21.2%	20.8%
Effective tax shelter*	89,0 %	89,2 %	89,2 %	89,7 %	89,7 %	89,7 %	89,6 %

\*2019 - The additional 20.8% uplift allowance (5.2% per year over four years) against the Special Petroleum Tax regime represents a tax value of 20.8% × 56% = 11.6%. Consequently, the total effective tax shelter for investments is 89.6% (78% + 11.6%).

# Introduction to Norwegian petroleum tax (continued)

## Loss carry forward

- Companies that do not have any taxable income may carry forward losses and uplift to subsequent years, with interest and without time-limitation.
- Such losses can be transferred to a buyer together with the entire business activity (all licences) in which the loss originated.
- If a company ceases all petroleum activities on the Norwegian Continental Shelf, the tax value of any remaining losses will be reimbursed by the Norwegian State.
- Companies that are not in a tax-paying position may also apply for a refund of the tax value of exploration costs. These rules are intended to ensure equal incentives to explore for petroleum regardless of the company's tax position.

Interest rate for the carryforward of deficits and surplus tax-free income	2014	2015	2016	2017	2018	2019
	1,3 %	0,9 %	0,8 %	0,7 %	0,9 %	1,3 %

## Tax payment schedule

- Current tax is paid in six bi-monthly instalments, starting in August in the fiscal year and ending in June the following year. The first three instalments are based on the company's estimated tax for the year. After the end of the fiscal year, the size of the remaining instalments may be adjusted if the actual results differ from the initial estimate. When the tax assessment is finalised, the difference between actual tax and the instalments paid is settled, normally in November.

## Business combinations and licence transactions

- Acquisitions of licences and companies are subject to approval by Norwegian Authorities and are required to be tax neutral for the authorities. If an acquisition is regarded as a business combination under IFRS 3, a fair value of all items is determined by a Purchase Price Allocation. This fair value of oil and gas assets is the basis for Unit of Production depreciation in the Financial Statements. For tax purposes, these transactions are required to be tax neutral. Thus, the tax values from the seller is transferred to the buyer. The purchaser is therefore not entitled to a tax deduction for the consideration paid over and above the seller's tax values.
- Even though these transactions are executed on post-tax basis, IFRS 3 required an accrual of deferred tax. The offsetting item to this deferred tax is technical goodwill. Goodwill is not amortised, but it is tested for impairment. When deferred tax from the initial recognition decreases in line with depreciations, more goodwill is as such exposed for impairments. These impairments are not tax deductible.

## Proposed amendments to the tax regime

- Following the Covid-19 pandemic the Norwegian Government has proposed temporary changes to the petroleum tax regime in Norway, in order to improve the liquidity of petroleum companies and to stimulate investment in the oil and gas industry.
- The Tax Proposal includes *inter alia* a proposal for an immediate depreciation of investments made in 2020 and 2021 against the hydrocarbon tax (currently 56% special tax), with the addition of 10% uplift, as well as the right to claim refund of the tax value of losses and unutilised uplift in the income years 2020 and 2021 in relation to activities on the NCS from the Norwegian State.

# Historical tax balances – OKEA ASA

Historical CAPEX net to OKEA	2014	2015	2016	2017	2018	2019
Draugen	1 822	1 166	702	287	50	116
Gjøa	15	12	16	4	13	100
Ivar Aasen	31	47	36	19	7	11
Yme	32	0	97	97	362	532
<b>Total CAPEX</b>	<b>1 900</b>	<b>1 225</b>	<b>851</b>	<b>407</b>	<b>432</b>	<b>759</b>

Uplift matrix	2014	2015	2016	2017	2018	2019
Draugen	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Gjøa	22.0%	22.0%	22.0%	21.6%	21.2%	20.8%
Ivar Aasen *)	30.0%	30.0%	30.0%	21.6%	21.2%	20.8%
Yme *)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

\*) Subject to exception from 5 May 2013



Thank you for your attention!

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