Fiscal terms overview and 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	2015	2016	2017	2018	2019	2020	2021
Company tax	27 %	25 %	24 %	23 %	22 %	22 %	22 %
Special petroleum tax	51 %	53 %	54 %	55 %	56 %	56 %	56 %
Total tax rate	**78 %**	**78 %**	**78 %**	**78 %**	**78 %**	**78 %**	**78 %**

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 which is managing and supporting offshore activities are deductible at the special petroleum tax rate.

Financial items

- Interest expenses and unrealised/realised currency losses on interest bearing debt are deductible against the company tax rate as well as partly deductible at the special petroleum tax rate, according to the formula below. Unrealised currency gains are only taxable to the extent it reverses previously recognised currency losses.

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

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. In addition, an uplift is granted on capital expenditure. This uplift represents an additional depreciation spread over four years** and is deductible under the special petroleum tax rate only.

Uplift	2015	2016	2017	2018	2019	2020**	2021**
Uplift per year	5.5%	5.5%	5.4%	5.3%	5.2%	24.0%	24.0%
Total uplift over four years	22.0%	22.0%	21.6%	21.2%	20.8%	24.0%	24.0%
Effective tax shelter*	89.2%	89.7%	89.7%	89.7%	89.6%	91.4%	91.4%

* Effective tax shelter for investments includes the tax effect of uplift.
2019: 78% + (20.8% × 56%) = 89.6%
2020/2021: 78% + (24% x 56%) = 91.4%

** Following the temporary amendments to the tax regulations, uplift on investments in 2020 and 2021 is deducted against the 56% special tax basis in the investment year. Reference is made to section "temporary amendments to the petroleum tax regime" on next page.

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.
- In case of a business acquisition, 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 remining 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	2016	2017	2018	2019	2020	2021
	0.8%	0.7%	0.9%	1.3%	0.6%	0,7 %

Tax payment schedule

- Tax 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.

Temporary amendments to the petroleum tax regime

- In response to the market turmoil and uncertainty relating to the Covid-19 pandemic, the Norwegian Parliament resolved temporary amendments to the petroleum tax regime in June 2020 in order to stimulate investment in the industry. The temporary amendment applies to capital expenditure made in 2020 and 2021 and until planned production start for projects where a plan for development and operation (PDO) is filed by the end of 2022 and approved prior to the end of 2023.
- The changes comprise:
  - direct expensing of capital expenditure with effect for the 56% special tax basis,
  - an increase in the uplift-rate to 24% in the investment year, and
  - refund of tax value of losses for the fiscal years 2020 and 2021 through negative tax instalments.

Historical tax balances – OKEA ASA

Historical CAPEX net to OKEA	2015	2016	2017	2018	2019	2020**	2021**
Draugen	1 166	702	287	50	116	151	228
Gjøa	12	16	4	13	100	375	70
Ivar Aasen	47	35	18	6	8	10	7
Yme	0	97	97	362	532	443	828
Total CAPEX	1 225	850	406	431	756	979	1 133

Uplift matrix	2015	2016	2017	2018	2019	2020	2021
Draugen	22.0%	22.0%	21.6%	21.2%	20.8%	24.0%	24.0%
Gjøa	22.0%	22.0%	21.6%	21.2%	20.8%	24.0%	24.0%
Ivar Aasen *)	30.0%	30.0%	21.6%	21.2%	20.8%	24.0%	24.0%
Yme *)	30.0%	30.0%	30.0%	30.0%	30.0%	24.0%	24.0%

* Subject to exception from 5 May 2013

** Directly expensed with the effect for the 56% special tax basis, refer to section "temporary amendments to the tax regime"

Thank you for your attention!