Fiscal terms overview and tax balances

OKEA ASA

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Introduction to the Norwegian petroleum tax

Norwegian government take from petroleum activities

- The main source of government take from petroleum activities on the Norwegian continental shelf is an ordinary (net income based) tax system with a normal corporate tax in addition to a special petroleum tax
- Licenses are granted free of charge (based on thorough applications), and there are no royalties, signature bonuses etc. There are some environmental taxes like CO_2 tax and NOx tax based on emissions from the offshore production facilities
- Norway recognise the importance of a stable fiscal regime, and the (combined) tax rate has been 78% for many years. However, with effect from 1 January 2022 there is a new and revised petroleum tax system where the special petroleum tax has been changed to a cash flow-based tax. The combined tax rate is maintained at 78%
- Consolidation between fields is allowed, i.e. there are no ringfence between different fields/licenses
- Norway has a statutory Dividend Withholding Tax of 25%, which may be reduced or 0 rated based on the respective shareholders residence and/or ownership. For more information see OKEA's home page: https://www.okea.no/investor/historical-tax-pools/

Financial and onshore items

- Financial income and costs will generally not be subject to special tax. The tax rules regarding financial items has not been subject to any change, and interest and foreign exchange gains (losses) related to ordinary interest-bearing debt is still subject to a certain formula-based allocation for special tax purposes:

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

- However, as it is the tax value for special tax that goes into the formula, the allocation to the special tax basis will be zero or close to zero due to the direct expense of offshore investments for special tax purposes
- Onshore loss, such as price hedging, is 50% deductible in the offshore corporate tax basis. Loss carry forward onshore has no time limit however needs to be offset by onshore income (e.g. net financial gains)

The new petroleum tax system

- The corporate tax (currently 22%) has not been changed, except that the possibility for refund of the tax value of unused losses incurred from and including 2022, as well as the yearly interest adjustment of tax losses, has been abolished. Offshore investments have a 6-year straight line depreciation from first investment for corporate tax. Onshore assets follows ordinary tax depreciation under the General Tax Act
- The special tax has been subject to relative significant changes. Offshore investments can be expensed directly, but there is no investment allowance. Thus, the previous uplift allowance has been abolished. Nevertheless, offshore investments where a plan for development is filed within 1 January 2023 and approved by the government within 1 January 2024 will be entitled to a yearly uplift allowance of 12,4% of capex until the year of planned production start.
- Corporate tax will be deductible in the special tax basis which has led to a technical adjustment of the special tax from 56% to 71,8% in order to maintain the combined tax rate at 78%
- Losses for special tax will be refunded each year with the tax value (71,8% based on the current tax rate). Further, any carry forward losses (special tax as well as corporate tax losses) per YE 2021 will be refunded with their tax values, i.e. 56% and 22% respectively
- The new system will improve liquidity, but the investment allowance (uplift) is abolished except for certain transitional rules as described above. This will lead to higher tax payments over time

Development of uplift and tax shelter (nominal) for special tax

- New investment not subject to transitional rules: no uplift and a 78% tax shelter for offshore investments
- New investment subject to transitional rules: 17,69% uplift and a tax shelter of 90,7%
- New investment subject to transitional rules as proposed by the government on 6 October 2022 from 2023: 12,4% uplift and a tax shelter of 86,9%
- Investments in 2020 and 2021: 24% uplift and a tax shelter of 91,4%
- Investments in 2017 -2019: 20,8% uplift (over 4 years) and a tax shelter of 89,6%

Introduction to the Norwegian petroleum tax (continued)

Decommissioning

- Tax deduction when the decommissioning costs actually incur
- As long as a company has other producing fields, decommissioning costs may be offset against such income
- For decommissioning when a company not has sufficient income, special tax losses will be refunded with 71,8% (current rate), while corporate tax losses can be carried forward indefinitely or carried back two years upon cease of business. No refund or interest adjustment for corporate tax losses. Restriction with respect to transfer of corporate loss
- Upon sale of assets (directly or indirectly) seller will continue to have an indefinite secondary liability for future decommissioning. For sale of shares the Ministry of Petroleum Energy normally requires that the seller of shares issue a guarantee for the target company's (secondary) decommissioning liabilities
- This normally leads to guarantee requirements towards buyer that also raise certain tax concerns

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. At the end of the fiscal year prior to the fourth instalment due on 1 February, the size of the remaining instalments may be adjusted if the updated estimate 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

Licence transactions

- For tax purposes, transfer of license shares at Norwegian continental shelf are done on a after tax basis, where the consideration not is tax deductible for buyer and not taxable income (gain) for seller. Effective tax date for the transaction will normally be Jan. 1 in the year of completion. For asset transactions, tax balances per effective date are transferred to buyer without any step up. Under the new petroleum tax system with direct expense of offshore capex for special tax, there will only be such balances for corporate tax purposes. Relevant tax legislation is the Petroleum Tax Act section 10, with regulations
- Share transfers are covered by the general tax legislation where the exemption method secures an after-tax transaction similar to a license transfer. In a share transaction the target company tax position is unchanged
- To the extent that transactions are in line with the regulations no specific consent from the Ministry of Finance is required. In other situations, such an approval is required, where the Ministry of Finance may set conditions for the approval and may also deviate from other relevant tax rules
- 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
- 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

Tax balances and values

Remaining tax balances 01.01.2023 - corporate tax basis 22%						
NOK million	2018	2019	2020	2021	2022	Total
Draugen	8	39	75	152	490	764
Gjøa	2	33	187	47	-2	268
Ivar Aasen	14	45	78	86	88	311
Yme	60	177	221	552	223	1 233
Brage	41	120	61	234	293	749
Nova	16	44	81	87	121	348
Total	141	458	704	1 157	1 213	3 674

Remaining tax balances 01.01.2023 - special tax basis 71,8% *						
NOK million	2018	2019	2020	2021	2022	Total
Draugen	8	39	0	0	0	47
Gjøa	2	33	0	0	0	36
Ivar Aasen	14	45	0	0	0	59
Yme	60	177	0	0	0	238
Brage	41	120	0	0	0	161
Nova	16	44	0	0	0	60
Total	141	458	0	0	0	600

* Net effect 56% due to deduction of corporate tax in the tax basis for special tax.

Tax depreciation and tax values per year						
NOK million	2023	2024	2025	2026	2027	Total
Depreciation corporate tax	1 137	996	767	532	243	3 674
Tax value from corporate tax	250	219	169	117	53	808
Depreciation special tax	371	229	0	0	0	600
Tax value from special tax	208	128	0	0	0	336
Total tax value	458	347	169	117	53	1 144

Thank you for your attention!

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