vår energi

Overview

Norwegian petroleum taxation

Petroleum companies are subject to both ordinary corporate taxation and special taxation pursuant to the Petroleum Tax Act of 13 June 1975.

The formal corporate tax rate is 22%, whereas the special tax rate is 71.8%. However, since the corporate tax is deductible in the special tax base, the effective corporate tax is only 6.204%. Thus, the overall combined tax rate remains 78.004%.

Exhibit 1 Norwegian Petroleum tax rates 2022-2024

Tax rates

Petroleum tax	2022	2023	2024[1]
Corporate tax (effective)	6.204%	6.204%	6.204%
Special tax	71.800%	71.800%	71.800%
Marginal tax rate	**78.004%**	**78.004%**	**78.004%**

Effective statutory tax rate after proposed tax regime

	2023
Corporate tax rate (nominal)	22.000%
Reduction due to deduction against special tax[2]	(15.796%)
Effective corporate tax rate[3]	**6.204%**

[1] Based on proposed state budget for 2024
[2] Reduction against special tax: (0.22 • -71.8%)
[3] Effective corporate tax rate: ((1-0.718) • 22%)

Taxation is based on net profit

In general, the company's net profit is the basis for taxable income in both the corporate tax and special tax regimes. The net profit is adjusted for differences in depreciations for financial and tax purposes, and other timing differences between accounting and tax principles.

Deductions are allowed for all relevant costs, including costs associated with exploration, research and development, financing, operating, maintenance, plugging and abandonment, decommissioning, removal etc. There is no ringfencing for special tax purposes and thus consolidation between fields is allowed. This means that losses or exploration costs from one field, can be written off against the company's income from operations elsewhere on the Norwegian shelf.

With the introduction of the cash-flow based special tax, the tax basis for the ordinary corporate tax and the special tax may however be substantially different.

Introduction of cash flow-based special tax

In June 2022 the Norwegian Parliament enacted a new cash flow-based special tax regime with effect from 1 January 2022. In the cash flow-based special tax, the tax value of any losses will be settled by cash the following year. The combined overall tax rate in the new regime is 78.004%, consisting of an effective corporate tax rate of 6.204% and a special tax rate of 71.8%.

In the new tax regime, investments in pipeline and production facilities (hereafter referred to as CAPEX) are deductible immediately against the special tax in the year of investment. Uplift will no longer apply to such CAPEX, except for investments subject to the temporary amendments (COVID-19 rules, see below) and pre-2020 CAPEX.

In the ordinary corporate tax regime, CAPEX shall continue to be capitalised and depreciated over 6 years (straight line) as of the year incurred.

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From a NPV point of view, the tax regime is favourable when screening investments as well as providing for a more robust cash-flow in a low-price environment due to the pay out of tax losses in the special tax (71.8%). Tax losses in the corporate tax basis (effective rate of 6.204%) must be carried forward without interest.

Temporary amendments (COVID-19 rules)

The temporary tax regime from 2020 is maintained for investments made pursuant to Plan for Development and Operation of petroleum deposit (PDO) or Plan for Installation and Operation of facilities (PIO) filed before 1 January 2023, approved by the Government after 12 May 2020, and before 1 January 2024 (but not investments incurred after the year of planned "first oil" as defined in the approved PDO/PIO). This tax treatment only applies to CAPEX investments up to the year of production startup in accordance with approved PDO/PIO.

The uplift was however reduced in 2022 from 24% to 17.69% to reflect the nominal increase in the special tax rate from 56% to 71.8%. The rate was in the state budget for 2023 reduced to 12.4% and onwards.

Norm price

When calculating taxable income for both the corporate tax and the special tax, crude oil sales are normally recorded using a "norm price". The norm price is set by the authorities (Petroleum Price Board) based on market prices and is applied regardless of whether the transactions are between related or unrelated parties. The norm price system applies to various types and qualities of petroleum. For natural gas and NGL, the actual sales prices are used.

Interest deductions

In the corporate tax basis, there are no limitations with respect to deductions for interests or other financial losses.

In the special tax basis, interest expenses and currency losses are only deductible according to this formula:

$$\text{Interest cost incl. DIE}^{1} \cdot \frac{\text{Tax values in the special tax base at 31.12} \cdot 0.5}{\text{Daily average interest bearing debt}}$$

Due to the new tax regime where CAPEX is depreciated fully in the year of investment, the tax values for special tax purposes will quickly be close to zero (or negligible). Thus, financial items will marginally be allocated to the special tax basis, and from 2024 and onwards the tax shield on interest will be close to the corporate tax rate of 22%.

CAPEX – tax depreciation and uplift

Following the introduction of the new cash flow-based special tax, different set of rules with regard to depreciation and uplift will apply to CAPEX investments covered by the original, temporary and the new sets of rules.

From and including the income year 2022, investments will therefore be partly treated according to the original ordinary rules (i.e. investments made before 2020 with remaining net taxable value and uplift), partly according to the temporary COVID-19 rules and partly according to the new ordinary rules with immediate deduction without uplift against the special tax (and with six years straight-line depreciation for the corporate tax basis). Further details are summarised in table below.

[1] DIE = Difference in exchange rate to interest bearing debt

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Exhibit 2 Petroleum tax – tax depreciation schedule and uplift rates

Petroleum tax depreciation of CAPEX

Years – straight line	Before	After 2020
Corporate tax	6	6
Special tax	6	1

Petroleum tax – uplift rates

Petroleum tax ordinary	2022	2023	2024 [1]
Uplift	None	None	None

Petroleum tax temporary	2022	2023	2024 [1]
Uplift in investment year	17.69%	12.40%	12.40%
Special tax	71.80%	71.80%	71.80%
Tax value of uplift	12.70%	8.90%	8.90%

From 2022 only CAPEX falling into the temporary tax regime will generate uplift.

Tax loss carry forward

In the cash flow-based special tax, the tax value of losses will be paid out in cash. Hence, there will be no loss carry forwards in the special tax.

Tax losses for corporate tax can be carried forward for an unlimited period. When the company ceases its business, any remaining corporate tax losses can be carried back for two years.

Exploration (EXPEX)

Exploration expenses are recorded in the financial statements according to the successful effort method, where drilling costs related to discoveries are capitalised in the balance sheet. For tax purposes however, all cash spend on exploration activities is immediately deductible in both the corporate tax basis and the special tax basis, regardless of capitalisation. For actual exploration expenses please refer to cash flow statement or relevant note for exploration expenditure in the financial statements.

[1] Based on proposed state budget for 2024

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Abandonment (ABEX including accretion)

Costs related to abandonment are deductible when incurred. In the financial statements, these costs are disclosed in the cash flow statement or relevant note for abandonment expenditure.

Accretion is a non-cash cost which reflects the increasing present value of the abandonment liabilities over time. The accretion expenses are specified on a separate line in the note for financial items.

Effective running tax shield for ABEX is 78%. For the last field being abandoned, there is some uncertainty related to the company's ability to utilise the tax deduction in the corporate tax basis (at the effective corporate tax rate of 6.204%).

Tax costs year to date (Q3-2023)

Exhibit 3 – Tax costs for year to date in Million USD

Tax cost for the period	YTD Q3 2022	YTD Q3 2023
Current tax	3 001.3	1 346.8
Change in deferred tax	605.1	1 072.4
Prior period adjustments	7.9	(3.4)
Total tax in the result	**3 614.3**	**2 415.7**

The tax expense in the income statement is principally made up of two components; current tax and change in deferred tax. In addition, the tax expense may include adjustments related to prior periods.

Current tax represents the payable tax related to the respective accounting period and is further explained below.

Deferred tax is the calculated tax liability on the temporary differences between book values of assets and liabilities in the financial statements, and the values of the same items in the tax returns, as further explained below.

Tax payment schedule

Exhibit 4 shows the payment cycle and Vår Energi's estimated payments of current tax in MNOK for 2023.

Exhibit 4 – Income tax payment schedule in Million NOK

	Tax payments made/(received) in the period							Predetermined
Income year	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4
Prior years	113				68			
2021	1 509	2 974		2 128				
2022			5 054	15 033	5 689	11 266		(191)
2023						64	2 697	6 300

The current tax is paid in six bi-monthly preliminary instalments, starting in August in the fiscal year and ending in June the following year.

Preliminary tax payments can be adjusted upwards within 1 October in the income year with effect for the first three payments. Furthermore, before 1 February following the income year, preliminary tax payments can be adjusted both down- and upwards based on actual financials, with effect for the last three payments.

The balance between paid tax instalments and final tax will be settled (paid or refunded), normally in November/December following the income year.

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Current tax

The calculation of current tax is set out in Exhibit 5:

Exhibit 5 – Current tax

USD Million	CT	ST
Revenues	5 151	5 151
Production cost	(831)	(831)
Other operating expenses	(110)	(110)
EBITDAX	**4 210**	**4 210**
Exploration (EXPEX)	(144)	(144)
Abandonment (ABEX)	(18)	(18)
CAPEX depreciation	(1 354)	(2 222)
Other adjustments and non-taxable items	54	54
TAX EBIT	**2 749**	**1 880**
Financial items		
Net financial items from income statement	(220)	
Accretion	72	
Other adjustments and non-taxable items	(165)	

USD Million	CT	ST
Other tax adjustments for special tax:		
Uplift		(45)
Corporate tax deductible against special tax		(706)
Taxable income	**2 436**	**1 129**
Tax rate	22.0%	71.8%
Current tax	**(536)**	**(811)**
Total current tax for corporate tax and special tax		**(1 347)**
Basis for corporate tax deductible against special tax		
Taxable income - corporate tax	2 436	
Onshore net taxable income not applicable for special tax	461	
Tax depreciation for corporate tax (CAPEX 2020-2021)	313	
Add back net financials not applicable for special tax	-	
Basis for corporate tax deductible against special tax	3 209	
	22%	
Corporate tax deducted for special tax	**(706)**	

The calculation of taxable income is somewhat different for corporate tax and special tax and are mainly related to financial items and uplift (old and temporary regulations) and changes in depreciation and deductions for corporate tax in the special tax basis (new regulation).

Most of the line items in Exhibit 5 can be found in the company's financial statements, directly or indirectly.

In the following pages, these items are described in further detail (numbers are from Vår Energi's year to date financial statements per September 2023).

Tax depreciation of fields from 2020 and 2021 and net financial items are added back for the estimation of the deductible corporate tax in the special tax basis. The reason for this adjustment is to secure an effective corporate tax deduction of 22% for investments made in 2020 and 2021.

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Foreign currency translation effects

Vår Energi's functional currency is in Norwegian kroner (NOK) while the presentation currency in the financial statements is US dollars (USD). The tax returns are filed in Norwegian kroner, hence only currency movements relative to Norwegian kroner are relevant for tax.

Tax balances, capex depreciation and uplift

Tax balances represent the remaining undepreciated asset values in the balance sheet of the tax returns for the corporate tax basis. Such tax balances are based in NOK, while Vår Energi's financial statements are reported in USD. The USD value of the tax balances will therefore fluctuate with the currency exchange rate.

Exhibit 6 shows the details of Vår Energi's tax balance at the end of 2022. The time profile for future depreciation related to this tax balance is shown in Exhibit 6. Tax effects of 2023 investments and beyond are not included.

Exhibit 6 - Tax balances per 31.12.2022 in Million NOK

Amounts in MNOK	2018	2019	2020	2021	2022
Field CAPEX	9 414	13 799	17 923	20 465	23 573

	2023	2024	2025	2026	2027
Depreciation schedule - corporate tax	14 196	12 627	10 327	7 340	3 929
Hereof depreciation schedule 2020/2021 - corporate tax	6 398	6 398	6 398	3 411	
Depreciation schedule - special tax	3 869	2 300			
Net CT Fiscal value (2023-2027) @ effective rate 6.2%/22% [1]	6 573				
Net CT Fiscal value (2023-2024) @ 71.8%	4 429				

[1] CT-rate of 22% applies to 2020 and 2021 CAPEX

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Deferred tax

Deferred tax liabilities or assets arise when the timing of taxable income is different from the timing of income in the financial statement. The difference in timing creates temporary differences between the book values in the financial statements and the tax returns.

To Vår Energi, temporary differences mainly exist in four areas:

- Property, plant and equipment is subject to different depreciation schedules. In the financial statements, the Unit of Production method is used. In the tax returns, the normal method is linear depreciation either over 1 year (the special tax basis) or 6 years (the corporate tax basis). This creates a difference in the value of such assets between the financial statements and the tax returns. Note that future uplift is not capitalised and therefore does not create temporary differences.
- Capitalised exploration expenditures represent costs related to successful exploration wells, according to the Successful Effort method. In the tax returns, all such costs are expensed (both corporate tax and special tax). Hence the entire amount represents a temporary difference.
- Other intangible assets mainly arise from acquisitions of companies where the purchase price partly has been allocated to future projects, which are not tangible assets at the time of acquisition. The tax value of such future projects is zero, as no investment has yet occurred. Deferred tax is thus normally recognised on the difference between the accounting value and the tax value. The exception from this main rule is when transactions have not been regarded as business combinations as defined by IFRS 3. For such transactions, no deferred tax is recognised in relation to the intangible assets acquired.
- Abandonment provisions in the financial statements represent the estimated future costs of abandonment. For tax purposes, abandonment costs are deductible when incurred. The abandonment provision therefore represents a temporary difference.
- Capitalised interest for accounting purposes as a part of PPE reflects a deferred tax liability of 78%, which unwinds the deferred tax liability with 78%, when depreciated. Actual current tax reduction in the year of capitalisation is close to the corporate tax rate.

Net profit interest

Net profit interest (NPI) applies to certain petroleum licenses (parts of Balder/Ringhorne, Breidablikk and Sleipner fields) all awarded in the second licensing round. The NPI is a cash flow tax where the Norwegian state receives a fixed percentage of the accumulated positive cashflow from the field. NPI related to abandonment costs incurred after the production has ceased will be refunded by the state, up to the point where the accumulated net cashflow for the state becomes nil.

For income tax purposes NPI is defined as OPEX/income. Under IFRS accounting standard NPI is considered as a tax (government take).

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