Overview –
Norwegian petroleum taxation

The Norwegian petroleum taxation system is based on the rules for ordinary corporate taxation and detailed regulations are set out in the Petroleum Tax Act, adopted 13 June 1975. In addition to the ordinary corporate tax, oil companies are subject to a special petroleum tax. As of 2022 the total tax rate is 78.004%.

Exhibit 1 Norwegian Petroleum tax rates 2020-2022:

Tax rates

Petroleum tax	2020	2021	2022 [1]
Statutory tax effective	22 000%	22 000%	6 204%
Special petroleum tax	56 000%	56 000%	71 800%
Marginal tax rate	78 000%	78 000%	78 004%

Effective statutory tax rate after proposed tax regime

Statutory tax rate	22.000%	
Reduction due to deduction against special petroleum tax	(15 796%)	71 800%
Effective statutory tax rate	6 204%	

Net profit

In general, the company's net profit is the basis for taxable income both for corporate tax and special petroleum tax and is adjusted for differences between book and tax depreciation and other timing differences between accounting and tax principles.

[1] Tax rates applicable after enactment of proposed tax regime

Deductions are allowed for all relevant costs, including costs associated with exploration, research and development, financing, operations and decommissioning. There is no ringfencing for petroleum tax purposes and 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 shelf.

Introduction of cash flow tax

In June 2022 the Norwegian Parliament enacted a new Petroleum Tax regime with effect from 1 January 2022. Special petroleum tax is from 2022 a cash-flow based tax where both profits and losses will be settled by cash the following year (payment or refund). The overall tax rate in the new regime is 78.004% and consist of an effective statutory tax rate of 6.204% and a new special petroleum 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 petroleum tax in the year of investment. Uplift will no longer apply to such CAPEX, except for investments subject to the June 2020 temporary amendments (COVID-19 rules) and pre-2020 CAPEX, see below.

For ordinary corporate tax CAPEX shall continue to be capitalized and depreciated over 6 years as of the year incurred.

Corporate income tax calculated at the nominal rate of 22% will be deductible in the special petroleum tax base. Hence the adjusted paid statutory tax is treated as an expense for special petroleum tax. The adjustment of the paid statutory tax is to secure an effective 22% statutory tax deduction, i.e. for financial items and tax depreciation related to field CAPEX from 2020 and 2021.

In general tax costs will increase over time in the new 2022 tax regime due to lack of uplift and lower interest shield from special petroleum tax. However, from a NPV point of view it will be favorable 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 for special petroleum tax (71.8%).

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Temporary amendments (COVID-19 rules)

The temporary tax regime from 2020 is maintained for investments made pursuant to a Plan for Development and Operation of petroleum deposit (PDO) or Plan for Installation and Operation of facilities (PIO) filed before 1 January 2023 and approved by the Government after 12 May 2020, but 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 applies to CAPEX investment up to year for production startup in accordance with approved PDO/PIO.

CAPEX – tax depreciation and uplift

Following the introduction of the new cashflow tax, different set of rules with regard to depreciation and uplift will apply to different years' of investment assets (CAPEX) for a certain transition period. From and including the income year 2022, investments will therefore be partly treated according to the current 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 special petroleum tax. Further details are summarized in table below.

Exhibit 2 Petroleum tax – tax depreciation schedule and uplift rates:

Years – straight line	Before	After 2020
Statutory tax	6	6
Special petroleum tax	6	1

Petroleum tax – uplift rates

Petroleum tax ordinary	2020	2021	2022 [1]
Uplift in new regime from 2022			None
Uplift per year on CAPEX from 2019	5.20%	5.20%	4.06%
Total uplift for 2019 CAPEX	20.80%	20.80%	19.66%
Special petroleum tax	56.00%	56.00%	71.80%
Tax value of uplift of 2019 CAPEX	11.65%	11.65%	11.65%

Petroleum tax temporary 2020	2020	2021	2022 [1]
Uplift in investment year	24.00%	24.00%	17.69%
Special petroleum tax	56.00%	56.00%	71.80%
Tax value of uplift	13.44%	13.44%	12.70%

From 2022 only CAPEX falling into the temporary tax regime will generate uplift up to startup year in approved PDO/PIO

[1] Adjusted rates for old and temporary regime applicable after enactment of new tax regime.

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Norm price

When calculating taxable income, all crude oil sales are 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.

Loss carry forward

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

The new tax legislation from 2022 does not include payout of corporate tax losses when the company ceases their Norwegian exploration and production activity. This change represents an uncertainty for full tax deduction at the effective statutory tax rate of 6.204% for the removal and abandonment CAPEX on the last field being abandon. This is reflected in the reported tax costs for 2022Q2.

There are no tax losses related to special petroleum tax including uplift due to the annual payout of special petroleum tax loss the year after income year.

Tax costs year to date 2022

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

Tax cost for the period	2021 HY1	2022 HY1
Current tax	40.6	1 937.8
Change in deferred tax	502.7	483.8
Prior period adjustments	1.3	7.7
Total tax in the result	544.7	2 429.3

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.

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. For Vår Energi, there are four main sources of such temporary differences:

- • Property, plant and equipment
- • Capitalized exploration expenditures
- • Other intangible assets
- • Abandonment provisions

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Tax payment schedule

Exhibit 4 shows the payment cycle for current tax and shows Vår Energi's estimated payments of current tax in MNOK for 2022.

Exhibit 4 – tax payment schedule in Million NOK

	Tax payments (received) in the period						Agreed	
Income year	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4
Prior years	17			140	113			
2020	(2 029)	(4 087)		1 293				
2021			(162)	3 589	1 509	2 974		2 128
2022							5 000	10 000

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

Agreed tax payments can be adjusted upwards within October 1 in the income year. Furthermore, before February 1 following the income year agreed tax payments can be adjusted both down- and upwards based on actual financials.

When the tax return is submitted within end April, after final norm prices for the year is known, will the balance between paid tax installments and final tax be settled (paid or refunded), normally in November following the income year.

Current tax

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

The calculation of taxable income is somewhat different for corporate tax and special petroleum tax and are mainly related to financial items and uplift.

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 more details (numbers are from Vår Energi's year to date per June 2022).

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USD Million	Taxable income	CT	SPT
Revenues	4 927		
Production cost	(675)		
Other operating expenses	(62)		
EBITDAX	**4 190**	**4 190**	**4 190**
Exploration (EXPEX)		(66)	(66)
Abandonment (ABEX)		-	-
CAPEX depreciation		(809)	(1 432)
Other adjustments and non-taxable items		83	75
TAX EBIT		**3 398**	**2 767**
Financial items			
Net financial items from income statement		(483)	
Accretion		46	
Other tax adjustments for SPT			(15)

USD Million	Taxable income	CT	SPT
Other tax adjustments for SPT			
Uplift			(137)
Statutory tax deductible for SPT-purposes			(824)
Taxable income		**2 961**	**1 791**
Tax rate		22.0%	71.8%
Current tax		**(652)**	**(1 286)**
Total current tax for CT and SPT			**(1 938)**
Basis for deductible corporate tax in SPT			
Taxable income above		2 961	
Tax depreciation for CT (CAPEX 2020 – 2021)		348	
Add back net financials n/a for SPT		437	
Basis for CT to be deducted in SPT		3 747	
		22%	
CT to be deducted for SPT-purposes		**(824)**	

Tax depreciation of fields from 2020 and 2021 and net financial items are added back for estimation of deductible statutory tax for special petroleum tax purposes. The reason for this adjustment is to secure an effective statutory tax deduction of 22%.

Exploration (EXPEX)

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

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 abandon there is some uncertainty for current tax deduction at the effective statutory tax rate of 6.204%.

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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. 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 2021. The time profile for future depreciation and uplift related to this tax balance is shown in Exhibit 7. Tax effects of future investments are not included.

Exhibit 6 - Tax balances per 31 December in Million NOK

Amounts in MNOK	2017	2018	2019	2020	2021
Field CAPEX	5 735	9 414	13 752	17 970	20 465
	2022	2023	2024	2025	2026
Depreciation schedule – CT	11 223	10 267	8 698	6 406	3 411
Hereof depreciation schedule – CT – for 2020/2021	6 406	6 406	6 406	6 406	3 411
Depreciation schedule – SPT	4 822	3 866	2 297		
Net CT Fiscal value (2022–2026) @ effective rate 6.2%/22% [1]	7 068				
Net CT Fiscal value (2022–2024) @ 71.8%	7 887				

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

Exhibit 7 - Uplift from historical CAPEX in Million NOK

Uplift schedule - SPT		2022
2019 capex	13 752	558
Tax value		401

Historical CAPEX impacting future uplift from 2019 with last cash tax impact in 2022.

Special Petroleum Tax and financial items

Interest expenses and currency losses are deductible against the special petroleum tax according to this formula:

$$\text{Interest cost including DIE}^{1} \cdot \frac{\text{Tax values for SPT purposes at 31 December} \cdot \text{tax factor 0.5}}{\text{Daily average interest bearing debt}}$$

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

Due to the new tax regime where CAPEX is depreciated fully in year of investment, the tax value of financial items will be close to statutory tax rate (22%) in future years.

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Deferred tax

Deferred tax liabilities or assets arise when the periodization of taxable income is different from the periodization of income in the financial statement. The difference in periodization 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 or 6 years depending upon relevant tax rate. This creates a difference in the value of such assets between the financial statements and the tax returns. Note that future uplift is not capitalized and therefore does not create temporary differences.

- Capitalized exploration expenditures represent costs related to successful exploration wells, according to the Successful Effort method. In the tax returns, all such costs are expensed. 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 recognized 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 recognized 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.

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. The state will refund NPI in the abandonment phase until the accumulated net cashflow for the states 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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