

Tax manual

AKER BP ASA
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Introduction to Norwegian petroleum tax

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.

Exhibit 1 - Norwegian Petroleum Tax Rates 2014-2021

Petroleum tax	2014	2015	2016	2017	2018	2019	2020	2021
Company tax	27 %	27 %	25 %	24 %	23 %	22 %	22 %	22 %
Special petroleum tax	51 %	51 %	53 %	54 %	55 %	56 %	56 %	56 %
Total tax rate	78 %	78 %	78 %	78 %	78 %	78 %	78 %	78 %

Net profit

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 shelf.

Capex deductions

When the taxable income is calculated, investments are written off using straight-line depreciation over six years 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.

Exhibit 2 - Norwegian Petroleum Tax - nominal uplift rates

Uplift ordinary tax system	2014	2015	2016	2017	2018	2019	2020	2021
Uplift per year	5.5%	5.5%	5.5%	5.4%	5.3%	5.2%	5.2%	5.2%
Total uplift over four years	22 %	22 %	22 %	22 %	21.2%	20.8%	20.8%	20.8%
Special petroleum tax	51 %	51 %	53 %	54 %	55 %	56 %	56 %	56 %
After tax value of uplift	11.2%	11.2%	11.7%	11.7%	11.7%	11.6%	11.6%	11.6%

Uplift temporary tax system	2014	2015	2016	2017	2018	2019	2020	2021
Uplift in investment year							24.0%	24.0%
Special petroleum tax							56 %	56 %
After tax value of uplift							13.4%	13.4%

Temporary tax system

In 2020, temporary changes were made to the Norwegian petroleum tax system to stimulate investments in the petroleum sector. A key element is that investments made in 2020 and 2021 are immediately tax deductible in the tax base for special tax (56 percent tax rate), and the uplift is increased to 24 percent in the year of investment. Such tax treatment will also comprise investments made pursuant to a PDO/PIO filed before 1 January 2023 and approved by the Government after 12 May 2020, but before 1 January 2024 (but not investments made after the year of planned "first oil" as defined in the approved PDO/PIO).

Investments comprised by the temporary tax changes are capitalised and depreciated over 6 years in the ordinary tax base (22 percent tax rate), as under the ordinary petroleum tax rules.

Norm price

When calculating taxable income, all crude oil sales are recorded using a “norm price”. The norm price is set by the authorities 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

Companies that do not have any taxable income may carry forward losses and uplift to subsequent years, with interest. 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 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 regardless of the company’s tax position.

Aker BP – tax overview

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.

Exhibit 3 - Tax overview

Tax for the period	2019	2020
Current tax	462	-333
Change in deferred tax	463	448
Prior period adjustments	18	4
Total tax in income statement	943	119

Current tax represents the payable tax related to the respective accounting period. The 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 finalized, the difference between actual tax and the instalments paid is settled, normally in November.

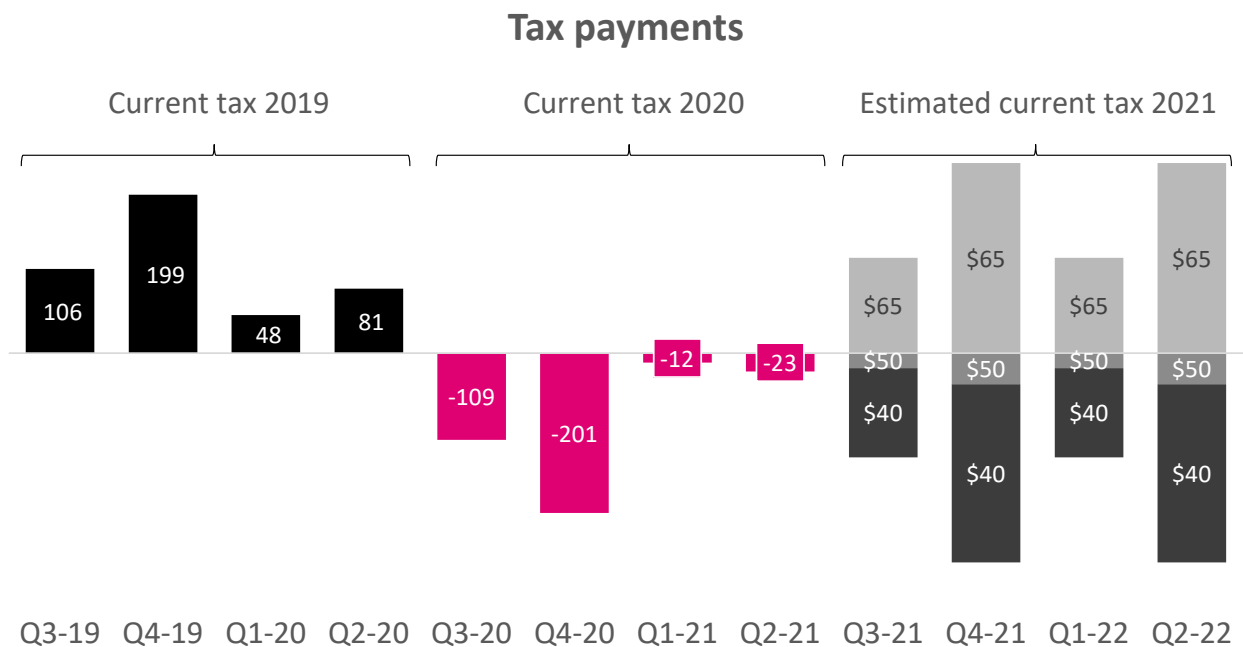
However, under the temporary tax changes the tax value of losses incurred in 2020 and 2021 (in both the ordinary tax base and in the special tax base (including the uplift of 24 percent) will be refunded in cash by the state. The refund will follow normal process for tax instalments as described above.

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 Aker BP, there are four main sources of such temporary differences:

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

Exhibit 4 shows the payment cycle for current tax and shows Aker BP's estimated payments of current tax for 2021 at various oil price scenarios (based on USDNOK of 8.50).

Exhibit 4 - Tax payment schedule



Current tax

The calculation of current tax is set out in Exhibit 5. The calculation of taxable income is slightly different for corporate tax and special petroleum tax. These differences 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 detail. The examples used are from Aker BP's fourth quarter 2020 report.

Exhibit 5 - Current Tax 2020

USD million	Taxable income	Corporate Tax	Special Petroleum Tax	Total
Revenues	2,979			
Production cost	-628			
Other opex	-49			
EBITDAX	2,302			
Exploration spend	-246			
Abandonment spend	-178			
Capex depreciation	-1,047			
Tax EBIT	831	831	831	
<u>Financial items for corporate tax:</u>				
Net financial items from income statement		-269		
Foreign currency translation of NOK monetary items		-80		
Foreign currency translation of USD monetary items		165		
Unrealized gain of long term loans		-139		
Accretion		117		
<u>Special petroleum tax deductions:</u>				
Uplift			-480	
Additional capex depreciation temporary tax system *			-1,070	
Interest expenses and currency gain/loss			0	
<u>Other:</u>				
Other adjustments and non-taxable items		-94	-86	
Taxable income		532	-804	
Tax rate		22 %	56 %	
Current tax		117	-450	-333

* Calculated as difference between tax depreciation 56% and tax depreciation 22%

Exploration spend

Exploration expenses are recorded in the financial statements according to the successful efforts 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. A simple method to calculate the exploration spend is illustrated in Exhibit 6. Note that Dry well expenses are deducted, as these costs are also included in the Additions.

Exhibit 6 - Exploration Spend calculation

Note 4 Exploration expenses			Exploration spend calculation	
Breakdown of exploration expenses (USD 1 000)	2020	2019		2020
Seismic	25,522	28,875	Total exploration expenses	174,099
Area fee	15,272	15,537	Dry well expenses	-56,626
Field evaluation	44,718	42,532	Additions	127,283
Dry well expenses	56,626	176,419	Leasing related	874
Other exploration expenses	31,961	42,153	Exploration spend	245,630
Total exploration expenses	174,099	305,516		
Note 6 Tangible fixed assets and intangible assets				
Exploration wells	2020	2019		
Additions	127,283	370,185		
Note 7 Leasing				
Payments of lease debt split by activities (USD 1 000)	2020	2019		
Exploration expenditures	874	1,384		

Abandonment spend

Costs related to abandonment are deductible when incurred. In the financial statements, these costs are disclosed in the cash flow statement as shown in Exhibit 7.

Exhibit 7 - Cash Flow from Investment Activities

STATEMENT OF CASH FLOW			
CASH FLOW FROM INVESTMENT ACTIVITIES (USD 1 000)	2020	2019	
Payment for removal and decommissioning of oil fields	-150,306	-104,890	← Abandonment spend
Disbursements on investments in fixed assets	-1,277,869	-1,703,213	
Disbursements on investments in capitalized exploration	-127,283	-370,185	
Cash received from sale of licenses	54,747		
Disbursements on investments in licenses		-143	
NET CASH FLOW FROM INVESTMENT ACTIVITIES	-1,500,710	-2,178,431	
Note 7 Leasing			
Payments of lease debt split by activities (USD 1 000)	2020	2019	
Abandonment activity	27,661	4,444	← Abandonment spend
Calculation			
	2020	2019	
From cash flow statement	150,306	104,890	
Abandonment-related lease payments	27,661	4444	
Total abandonment spend	177,967	109,334	

Foreign currency translation effects

Aker BP's functional currency in the financial statements is USD. The tax returns are however denominated in NOK, hence only currency movements relative to NOK are relevant for tax. When using the financial statements as a starting point, the translation effect on NOK monetary items should therefore be excluded, while the translation effect on USD monetary items should be included, when calculating taxable income. The actual effects for both NOK and USD items can be found in the Tax note, see Exhibit 8. The NOK effect can also be found in the Financial items note, see Exhibit 10. An analytical approximation of the USD effects is presented in Exhibit 9.

Exhibit 8 - Foreign Currency Translation Effects

Note 9 Tax			Foreign currency translation effect calculation	
Reconciliation of tax expense (USD 1 000)	2020	2019		2020
78% tax rate on profit before tax	127,674	845,718		
Tax effect of uplift	-268,564	-129,619		
Permanent difference on impairment	169,670	114,907		
Foreign currency translation of NOK monetary items	-62,040	-12,535	← NOK items	-79,538
Foreign currency translation of USD monetary items	129,042	-16,006	← USD items	165,438
Tax effect of financial and other 22%	37,761	81,593		
Currency movements of tax balances	-30,321	34,297		
Other permanent differences, prior period adjustments and change in estimate of uncertain tax positions	15,748	24,848		
Total taxes (+)/tax income (-)	118,970	943,204		

Exhibit 9 - Estimating USD forex effects

Taxable FX losses 2020	USDm	From	USDNOK	To	USDNOK	NOKm	USDm
USD400m bond	400	2019.12	8.78	2020.10	8.39	-156	-16
USD500m bond	500	2019.12	8.78	2020.12	8.58	-100	-11
USD750m bond	750	2019.12	8.78	2020.12	8.58	-150	-16
USD500m	500	2020.02	8.87	2020.12	8.58	-145	-15
USD1000m	1,000	2020.02	8.87	2020.12	8.58	-290	-31
USD500m	500	2020.09	9.43	2020.12	8.58	-425	-45
USD750m	750	2020.09	9.43	2020.12	8.58	-638	-67
Total taxable FX losses, USD million						-1,903	-201
Actual taxable FX losses, USD million							-165

Exhibit 10 - Financial Items

Note 8 Financial items			
(USD 1 000)	2020	2019	
Interest income	3,763	16,490	
Realized gains on derivatives	16,821	11,261	
Change in fair value of derivatives	74,537	7,316	
Net currency gains	79,507	16,677	
Total other financial income	170,865	35,255	
Interest expenses	184,501	175,672	
Interest on lease debt	16,629	23,897	
Capitalized interest cost, development projects	-39,267	-144,686	
Amortized loan costs	19,813	21,705	
Total interest expenses	181,677	76,587	
Net currency loss	0	0	
Realized loss on derivatives	125,791	46,751	
Change in fair value of derivatives	0	10,742	
Accretion expenses	116,947	121,723	← Accretion
Other financial expenses	19,314	38,929	
Total other financial expenses	262,052	218,145	
Net financial items	-269,101	-242,986	← Net financial items

Accretion

Accretion is a non-cash cost which reflects the increasing present value of the abandonment liabilities over time, and which is not tax deductible. The accretion expenses are specified on a separate line in the Financial items note in the company's financial statements (see Exhibit 10).

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 Aker BP's financial statements are reported in USD. The USD value of the tax balances will therefore fluctuate with the currency exchange rate.

Exhibit 11 shows the details of Aker BP's tax balance at the end of 2020. The time profile for future depreciation and uplift related to this tax balance is shown in Exhibit 12. Tax effects of future investments are not included.

Exhibit 11 - Tax balances per 31.12.2020

NOK million	Capex* ordinary system	Capex* temporary system	2020 tax depreciation 22%	2020 tax depreciation 56%	Remaining tax balance 22% end 2020	Remaining tax balance 56% end 2020	2020 uplift	Remaining uplift end 2020
2015	8,236		1,373	1,373	0	0		
2016	6,563		1,094	1,094	1,094	1,094		
2017	7,388		1,231	1,231	2,463	2,463	399	
2018	9,134		1,522	1,522	4,567	4,567	484	484
2019	13,676		2,279	2,279	9,117	9,117	711	1,422
2020		12,038	2,006	12,038	10,032	0	2,889	
Onshore assets	298		305	305	1,502	1,502		
Total NOK million			9,811	19,843	28,775	18,743	4,483	1,906
NOK/USD			9.37	9.38	8.58	8.58	9.35	9.35
Total USD million			1,047	2,116	3,355	2,185	480	204

* Including capitalised interest from investment year 2020

Exhibit 12 - Future tax depreciation and uplift from investments made before 2021

Year	Depreciation 22% NOK million	Depreciation 56% NOK million	Uplift NOK million	Tax effect NOK million	Tax effect USD million**
2021	8,509	6,502	1,195	6,183	721
2022	7,321	5,315	711	4,985	581
2023	6,019	4,013		3,572	416
2024	4,444	2,438		2,343	273
2025	2,125	119		534	62
2026	89	89		70	8
2027 onwards	267	267		209	24
Total	28,775	18,743	1,906	17,894	2,086

** Based on USDNOK 8.58

Special Petroleum Tax and financial items

Interest expenses and currency losses are partly deductible from the Special Petroleum Tax, according to the formula in Exhibit 13. The exact data needed to calculate this deduction are not available in the company's financial reporting. One possible analytical approach to estimate the effect, and the actual numbers for 2020, are shown in Exhibit 14.

Exhibit 13 - Calculation of SPT deduction for financial items

$$0.5 * \left(\frac{\text{Tax balances}}{\text{Avg. interest bearing debt}} \right) * (\text{Interest expenses} + \text{Taxable FX loss}/(\text{gain}))$$

Exhibit 14 - Analytical approximation of SPT deduction for financial items

Tax balances per year end, NOK million	2019	2020E	Actual
Tax balances total (from specification of Tax Balances)	26,573	18,743	18,743
- tax balances excluded (related to investments in onshore assets)	431	474	474
= Tax balances subject to calculation of SPT interest deduction	26,142	18,269	18,269

Gross interest-bearing debt	Interest	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2020E	Actual
USDNOK end of period (Bloomberg)		8.79	10.40	9.63	9.33	8.58		
USDNOK average for period (Bloomberg)			9.50	10.02	9.13	9.02	9.42	
<u>Interest-bearing debt, USD million</u>								
DETNOR02	7.50 %	216	183	197				
USD400m	6.00 %	400	400	400	400			
USD500m	5.875 %	500	500	500	500	500		
USD750m	4.75 %	750	750	750	750	750		
USD500m	3.00 %		500	500	500	500		
USD1000m	3.75 %		1,000	1,000	1,000	1,000		
USD500m	2.88 %				500	500		
USD750m	4.00 %				750	750		
Bank debt drawn *	4.00 %	1,450	300	400	-	-		
Total, USD million		3,316	3,633	3,747	4,400	4,000		
Average gross debt, USD million			3,474	3,690	4,074	4,200		
Average gross debt, NOK million			33,007	36,962	37,207	37,875	36,263	34,121
Bank undrawn, USD million *	0.50 %	2,550	3,700	3,600	4,000	4,000		
Bank undrawn average, USD million			3,125	3,650	3,800	4,000		

Interest expenses	Q1-20	Q2-20	Q3-20	Q4-20	2020E	Actual
Interest on average debt outstanding, USD million	41	42	45	43	172	
Commitment fee RBL, USD million	4	5	5	5	18	
Total interest expenses, USD million	45	47	50	48	190	
Total interest expenses, NOK million **	429	471	452	437	1,790	1,809

Taxable FX losses	USDm	From USDNOK	To USDNOK	2020E	Actual
USD400m bond	400	2019.12 8.78	2020.10 8.39	-156	
USD500m bond	500	2019.12 8.78	2020.12 8.58	-100	
USD750m bond	750	2019.12 8.78	2020.12 8.58	-150	
USD500m	500	2020.02 8.87	2020.12 8.58	-145	
USD1000m	1,000	2020.02 8.87	2020.12 8.58	-290	
USD500m	500	2020.09 9.43	2020.12 8.58	-425	
USD750m	750	2020.09 9.43	2020.12 8.58	-638	
Total taxable FX gain, NOK million				-1,903	
Unrealized FX gain taxable in later years, NOK million				1,191	139
Total taxable FX losses current year, NOK million				-712	-609
Total taxable FX losses, USD million				-76	

Calculation of SPT interest deduction (using formula in Exhibit 13)	Estimate	Actual
Share of interest expenses and FX loss/gain	25 %	27 %
Amount deductible, NOK million	272	321
Taxable capitalized interest	-272	-321
Amount deductible current year, NOK million	0	0
Amount deductible, USD million	0	0

* Generic assumptions for interest terms

** The actual NOK amount also includes fees related to loans

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. For Aker BP, 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 over six years. 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 does therefore not create temporary differences.

Capitalized exploration expenditures represent costs related to successful exploration wells, according to the Successful Efforts 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.

Exhibit 15 - Deferred Tax

USD million

31.12.2019	Book value	Tax balance	Difference	Deferred tax	Implied tax rate
Tangible fixed assets	7,023	3,027	3,997	-2,983	75 %
Other intangible assets	1,330	0	1,330	-1,038	78 %
Intangible asset w/o deferred tax	585	0	585	0	0 %
Goodwill	1,713	0	1,713	0	0 %
Capitalized exploration	621	0	621	-485	78 %
Abandonment provision	-2,788	-6	-2,782	2,170	78 %
Other				99	
Total				-2,235	
31.12.2020	Book value	Tax balance	Difference	Deferred tax	Implied tax rate
Tangible fixed assets	7,399		7,399	-5,649	76 %
- subject to 22% tax depreciation		3,355	-3,355	738	22 %
- subject to 56% tax depreciation		2,185	-2,185	1,224	56 %
Total tangible fixed assets				-3,687	
Other intangible assets	1,098	0	1,098	-856	78 %
Other intangible asset w/o deferred tax	423	0	423	0	0 %
Goodwill	1,647	0	1,647	0	0 %
Capitalized exploration	522	0	522	-407	78 %
Abandonment provision	-2,806	-6	-2,800	2,184	78 %
Other				124	
Total				-2,642	
2020 movement				Deferred tax	
Change in deferred tax in the balance sheet				-407	
- of which related to fiscal year 2020				-448	
- of which related to prior period adjustments				41	