

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 2017-2023

Petroleum tax	2017	2018	2019	2020	2021	2022*	2023*
Corporate tax (CT)	24 %	23 %	22 %	22 %	22 %	22%	22%
Special petroleum tax (SPT)	54 %	55 %	56 %	56 %	56 %	71.8%	71.8%
Total tax rate	78 %	78 %	78 %	78 %	78 %	78%	78%

* Corporate tax is partly deductible in the base for calculating Special petroleum tax, resulting in an effective Corporate tax rate of 6.2%, see "Corporate tax deductible against Special petroleum tax" below.

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

For investments made prior to 2020, when calculating taxable income, capex is written off using straight-line depreciation over six years from the year the expense was incurred. This applies to both the Corporate tax (CT) and the Special petroleum tax (SPT) calculation. An additional uplift was granted on capital expenditure, representing an additional depreciation spread over four years. The uplift was deductible under the special petroleum tax only. For investments made prior to 2020 there is no remaining uplift deduction as of 1 January 2023.

From 2022, a revised set of rules has been introduced, under which capex deductions to calculate taxable income for Corporate tax is still written off using a straight-line depreciation over six years (unchanged), while capex deductions under Special petroleum tax is depreciated in full in the year the expense is incurred.

Temporary tax system

In 2020, temporary changes were made to the Norwegian petroleum tax system to stimulate investments in the petroleum sector. The key elements were that investments made in 2020 and 2021 were immediately tax deductible in the tax base for special tax (56 percent tax rate), and the uplift was 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 in the period from 12 May 2020 to 1 January 2024. The temporary tax system covers investments made up to and including the year of planned "first oil" as defined in the approved PDO/PIO. As part of the introduction of new tax rules in 2022, the uplift rate for investments made under the temporary tax system has been revised to a technically adjusted level of 17.69% results from the fact that the marginal tax rate has increased to 71.8%.

Additionally, in the 2023 National Budget the government have reduced the uplift rate in the temporary tax system to 12.4% effective from 1.1.2023 and onwards.

Investments comprised by the temporary tax changes are capitalised and depreciated over 6 years in the Corporate tax base, as under the ordinary petroleum tax rules.

Exhibit 2 - Norwegian Petroleum Tax Rates 2017-2023

Uplift ordinary tax system	2017	2018	2019	2020	2021	2022	2023
Uplift per year	5.4%	5.3%	5.2%	5.2%	5.2%		
Total uplift over four years	22 %	21.2%	20.8%	20.8%	20.8%		
Special petroleum tax	54 %	55 %	56 %	56 %	56 %	71.8 %	71.8 %
After tax value of uplift	11.7%	11.7%	11.6%	11.6%	11.6%		

Uplift temporary tax system	2017	2018	2019	2020	2021	2022	2023
Uplift in investment year				24.0%	24.0%	17.69%	12.40%
Special petroleum tax				56 %	56 %	71.8 %	71.8 %
After tax value of uplift				13.4%	13.4%	12.7%	8.9%

Corporate tax deductible against Special petroleum tax

Under the revised 2022 tax rules, Corporate tax is partly deductible in the Special petroleum tax. The items deductible are those which are subject to taxation under both the Corporate tax and Special petroleum tax rules. This means that certain elements, including financial items not eligible for deduction under the Special petroleum tax and remaining depreciation for calculation Corporate taxable income related to 2020 and 2021, should be excluded from the deduction.

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.

Treatment of tax losses

Corporate tax losses are carried forward without interest. Special petroleum tax losses are reimbursed by the state in November the following year as part of the ordinary tax assessment.

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	2022 01.01.-31.12	2021 01.01.-31.12
Current tax *	7,162	1 526
Change in deferred tax	-12	530
Current tax related to change in tax system *	-176	0
Deferred tax related to change in tax system	189	0
Prior period adjustments	10	11
Total tax in income statement	7,173	2 067

* Sum current tax USD million 6 987

Current tax is the payable tax related to the respective accounting period, and 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 year-end, the remaining instalments may be adjusted if the actual results differ from the initial estimate. In October and April, it is possible to make an additional voluntary payment in addition to the fixed instalment. When the tax assessment is finalized, the difference between actual tax and the instalments paid is settled, normally in November.

From 2022 onwards, any Special petroleum tax losses (including the uplift of 17.69% percent) will be refunded in cash by the state. The refund will be paid out in November the following year. Exhibit 4 illustrates how tax instalments are distributed over the year.

Exhibit 4 – Tax instalments



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:

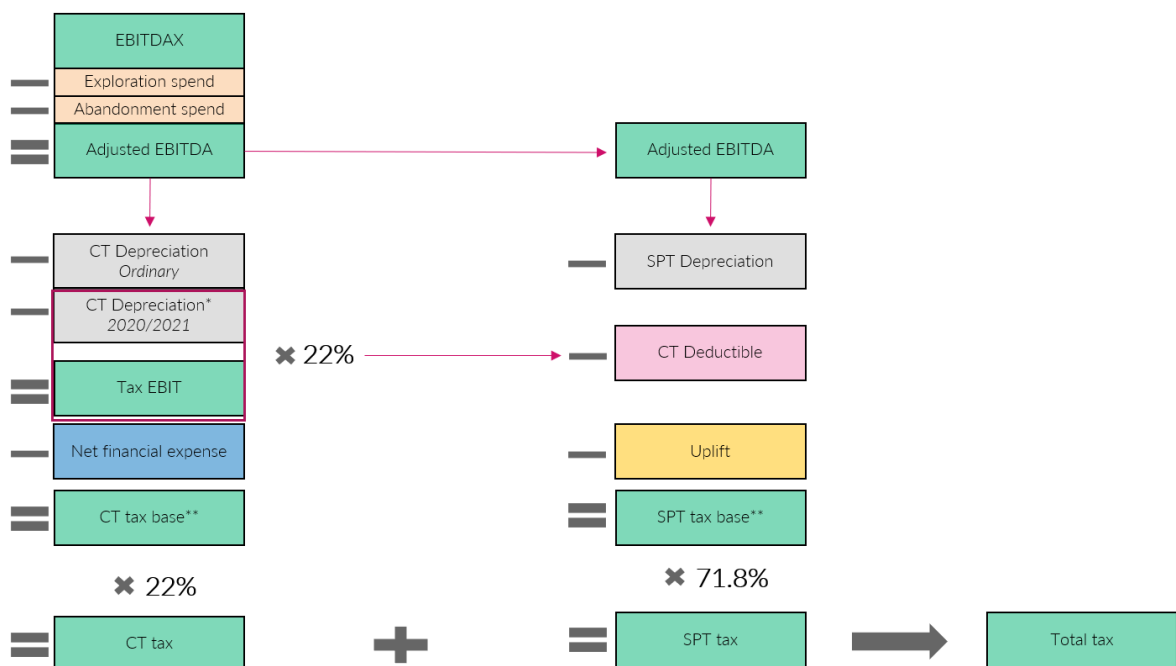
- Property, plant and equipment
- Capitalized exploration expenditures
- Other intangible assets
- Abandonment provisions

Current tax

The calculation of current tax is set out in Exhibit 5 and 6. The calculation of taxable income is different for corporate tax and special petroleum tax. These differences are mainly related to the different depreciation profiles for Corporate tax and Special petroleum tax, corporate tax deductible under Special petroleum tax, as well as financial items and uplift.

Exhibit 5 shows a simplified method to estimating the current tax calculation, excluding FX-effects, one-off items and non-taxable items.

Exhibit 5 - Current Tax calculation overview, simplified approach



*Split out due to not being deductible in the CT amount which is sequentially deducted in the SPT base following the current tax system as of May '22

**We have chosen not to include several FX and smaller one-off items that impact the tax bases as we find these unpredictable

Exhibit 6 shows a detailed calculation of Aker BP's current tax given in the fourth quarter report 2022. Most of the items can be found in the company's financial statements, directly or indirectly. In the following pages, these items are described in detail.

Exhibit 6 - Current Tax FY2022

Aker BP excluding Lundin

USD million	Taxable income	Corporate Tax	Special Petroleum Tax	Total
Revenues	13,010			
Production cost	-933			
Other opex	-53			
EBITDAX	12,024			
Exploration spend	-364			
Abandonment spend	-80			
CT Depreciation – ordinary	-949			
CT Depreciation – 2020/2021 share *	-520			
Tax EBIT	10,111	10,111	10,111	
- Addback CT Depreciation 2020/2021 share			520	
Oil and gas derivatives booked as income			-36	
Interest expenses and currency gain/loss				
Other adjustments and non-taxable items			-132	
Basis "sekvensiell skatt"			10,463	
<u>Financial items for corporate tax:</u>				
Net financial items from income statement		-188		
Foreign currency translation of other than USD monetary items		-219		
Foreign currency translation of other than NOK monetary items		166		
Unrealized gain of long term loans		103		
Accretion		120		
Unrealised gain/loss from fx derivatives		0		
Unrealised gain/loss from oil and gas derivatives		-9		
<u>Special petroleum tax deductions:</u>				
CT deductible in SPT			-2,302	
Uplift			-227	
Additional SPT depreciation **			-1,265	
<u>Other:</u>				
Other adjustments and non-taxable items		-94	-0	
Taxable income		9,990	6,670	
Tax rate		22%	71.8 %	
Current tax FY2022***		2,198	4,789	6,987
Current tax 1H2022 acquired from Lundin				2,181
Current tax FY2022 for combined company				9,168

* Depreciation related to capex for 2020 and 2021, applicable to 2026

** Calculated as difference between tax depreciation SPT and tax depreciation CT Ordinary

*** Ref Note 9 Tax. Amount equals Current year tax payable/receivable of 7163 + Current year tax payable/receivable related to change in tax system of -176

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 7. Note that Dry well expenses are deducted, as these costs are also included in the Additions.

Exhibit 7 - Exploration Spend calculation

Note 5 Exploration expenses		01.01.-31.12		Exploration spend calculation	
Breakdown of exploration expenses (USD 1 000)		2022	2021		
Seismic		34 424	23 138	Total exploration expenses	242 193
Area fee		12 324	18 891	Dry well expenses	-135 800
Field evaluation		10 749	176 969	Additions 30.09.	213 977
Dry well expenses		135 800	98 827	Additions 31.12.	37 788
Other exploration expenses		48 896	35 208	Leasing related Q2	178
Total exploration expenses		242 193	353 033	Leasing related 01.01-31.03	6 044
Note 7 Tangible fixed assets and intangible assets				Exploration spend	364 380
Capitalized exploration wells		2022			
Additions 30.09.		213 977			
Additions 31.12.		37 788			
Note 8 Leasing		2022	2022	2021	
Payments of lease debt split by activities (USD 1 000)		Q4	01.01.-30.09	01.01.-31.12	
Exploration expenditures		178	6 044	1 858	

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 8.

Exhibit 8 - Cash Flow from Investment Activities

STATEMENT OF CASH FLOW		01.01.-31.12		
CASH FLOW FROM INVESTMENT ACTIVITIES (USD 1 000)		2022	2021	
Payment for removal and decommissioning of oil fields		-78 870	-172 512	← Abandonment spend
Disbursements on investments in fixed assets		-1 580 045	-1 376 879	
Disbursements on investments in capitalized exploration		-251 764	-177 464	
Investments in financial asset		-95 000	0	
Consideration paid in Lundin Energy transaction net of cash acquired		-1 228 922	0	
Cash received from sale of financial asset		118 005	0	
NET CASH FLOW FROM INVESTMENT ACTIVITIES		-3 116 596	-1 726 855	
Note 8 Leasing		2022	2022	2021
Payments of lease debt split by activities (USD 1 000)		Q4	01.01.-30.09	01.01.-31.12.
Abandonment activity		57	694	31 715
				← Abandonment spend
Calculation		2022	2022	2021
		Q4	01.01.-30.09	01.01.-31.12
From cash flow statement				78 870
Abandonment-related lease payments		57	694	751
Total abandonment spend				79 621

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, including taxes payable, 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 9. The NOK effect can also be found in the Financial items note, see Exhibit 11. An analytical approximation of the USD effects is presented in Exhibit 10.

Exhibit 9 - Foreign Currency Translation Effects

Note 10 Tax Reconciliation of tax expense (USD 1 000)	01.01.-31.12		Foreign currency translation effect calculation
	2022	2021	
78% tax rate on profit before tax	6 846 295	2 258 703	
Tax effect of uplift	-161 708	-270 454	
Permanent difference on impairment	294 386	-36 862	
Foreign currency translation of monetary items other than USD	-170 564	-68 575	
Foreign currency translation of monetary items other than NOK	129 563	16 508	
Tax effect of financial and other 22%	60 126	97 881	
Currency movements of tax balances	138 929	43 332	
Other permanent differences, prior period adjustments and change in estimate of uncertain tax positions	36 883	27 321	
Total taxes (+)/tax income (-)	7 173 910	2 067 855	
			Divided by 78%
			← NOK items
			← USD items
			2022
			-218 661
			166 106

Exhibit 10 - Estimating forex effects

Taxable FX losses/gains estimation 2022	Loan	From	FX	To	FX	NOKm	USDm
USD500m	500	2021.12	8.81	2022.12	9.86	523	53
USD1000m	1 000	2021.12	8.81	2022.12	9.86	1 047	106
USD500m	500	2021.12	8.81	2022.12	9.86	523	53
USD750m	750	2021.12	8.81	2022.12	9.86	785	80
EUR750m	750	2021.12	9.98	2022.12	10.51	402	41
USD1000m	1000	2022.06	10.63	2022.12	9.86	-773	-78
USD1000m	1000	2022.06	10.63	2022.12	9.86	-773	-78
Estimated taxable FX losses(+)/gains(-)*						1 734	176
Actual taxable FX losses(+)/gains(-) (From ex. 14)							-166

*Difference between Estimated taxable FX losses/(gains) and Actual taxable FX losses/(gains) are other FX losses/(gains) on i.e. cash, receivables, payables, however not easily estimated without detailed company data insight.

Exhibit 11 - Financial Items

Note 9 Financial items (USD 1 000)	01.01.-31.12		
	2022	2021	
Interest income	25 959	2 481	
Realized gains on derivatives	33 466	27 392	
Change in fair value of derivatives	333 674	0	
Net currency gains	308 373	88 779	
Other financial income	98 774	0	
Total other financial income	774 287	116 171	
Interest expenses	154 019	145 651	
Interest on lease debt	7 496	11 558	
Capitalized interest cost, development projects	-85 612	-40 136	
Amortized loan costs	31 815	22 460	
Total interest expenses	107 718	139 533	
Net currency loss	269 434	0	
Realized loss on derivatives	480 945	23 249	
Change in fair value of derivatives	0	44 565	← Unrealised fx derivatives
Accretion expenses	119 895	61 944	← Accretion
Other financial expenses	9 834	39 274	
Total other financial expenses	880 109	169 032	
Net financial items	-187 581	-189 913	← 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 11).

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 12 shows the details of Aker BP's tax balance at the end of the fourth quarter 2022. The time profile for future depreciation and uplift related to this tax balance is shown in Exhibit 13. Tax effects of future investments are not included.

Exhibit 12 - Tax balances per 31.12.2022

Year	Capex ordinary system	Capex temporary system	2022 CT Depreciation ordinary	2022 CT Depreciation 2020/2021 share	2022 SPT Depreciation	Remaining tax balance CT ordinary - end Q2 2022	Remaining tax balance CT 2020/2021 share - end Q2 2022	Remaining tax balance SPT - end Q2 2022	2022 uplift	Remaining uplift end Q2 2022
2017	14 344		2 391		2 391	0		0		
2018	13 791		2 299		2 299	2 299		2 299		
2019	19 277		3 213		3 213	6 426		6 426	783	0
2020	0	18 088	0	3 015	0	0	9 044	0	0	0
2021	0	18 244	0	3 041	0	0	12 162	0	0	0
2022	7 928	9 037	2 828		16 971	14 139		0	1 599	0
Onshore assets			405		405	2 083		2 079		
Total NOK million			11 135	6 055	25 278	24 946	21 207	10 803	2 381	0
NOK/USD			9.62	9.62	9.62	9.86	9.86	9.86	9.62	9.96
Total USD million			1 157	629	2 628	2 531	2 151	1 096	248	0
of which total USD million related to Aker BP excl ABP Norway AS at 2Q22			949	520	2 215				227	

Exhibit 13 - Future tax depreciation and uplift from investments made before 31.12.2022

Year	CT Depreciation Ordinary	CT Depreciation* 2020/2021 share	SPT Depreciation	Uplift	Onshore depreciation**	Tax effect NOK million	Tax effect USD million***
2023	8 339	6 055	5 510	0	348	6 077	640
2024	6 040	6 055	3 212	0	257	4 214	444
2025	2 828	6 055	0	0	193	1 658	175
2026	2 828	3 041	0	0	148	959	101
2027	2 828	0	0	0	116	265	28
2028 onwards	0	0	0	0	1 021	796	84
Remaining tax balance 31.12.22	22 862	21 207	8 722	0	2 083	13 970	1 470

*Split out due to not being deductible in the CT amount which is sequentially deducted in the SPT base following the current tax system as of May '22

**To be added to both CT and SPT depreciation

*** Based on USDNOK 9.5

Special Petroleum Tax and financial items

Interest expenses and currency losses are partly deductible from the Special Petroleum Tax, according to the formula below. The exact data needed to calculate this deduction are not available in the company's financial reporting. Due to change in tax system in 2022 the portion of interest expense and currency losses deducted from the Special Petroleum Tax is significantly reduced. Due to the low impact we recommend to use 22% tax rate on financial items.

$$0.5 * \left(\frac{\text{Tax balances special tax } 71.8\%}{\text{Avg. interest bearing debt}} \right) * (\text{Interest expenses} + \text{Taxable FX loss/(gain)})$$

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 from 2022 onwards immediate depreciation in the year the investment is incurred. This creates a difference in the value of such assets between the financial statements and the tax returns.

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 14 - Deferred Tax

USD million

31.12.2022	Book value	Tax balance	Difference	Deferred tax	Implied tax rate
Tangible fixed assets	15 887		15 887	-12 392	78 %
Right-of-use assets	111		111	-87	78 %
- subject to 6,204% tax depreciation		2 531	-2 531	157	6.204 %
- subject to 22% tax depreciation		2 151	-2 151	473	22 %
- subject to 71,8% tax depreciation		1 096	-1 096	787	71.8 %
Total tangible fixed assets				-11 062	
Other intangible assets	1 885	0	1 885	-1 470	78 %
Other intangible asset w/o deferred tax	459	0	459	0	0 %
Goodwill	13 935	0	13 935	0	0 %
Capitalized exploration	252	0	252	-196	78 %
Abandonment provision	-4 166	0	-4 166	3 249	78 %
Other				120	
Total				-9 359	
31.12.2021	Book value	Tax balance	Difference	Deferred tax	Implied tax rate
Tangible fixed assets	10 214		10 214	-7 845	77 %
Right-of-use assets	94		94	-73	78 %
- subject to 6,204% tax depreciation		1 390	-1 390	86	6.204 %
- subject to 22% tax depreciation		2 081	-2 081	458	22 %
- subject to 71,8% tax depreciation		1 390	-1 390	998	71.8 %
Total tangible fixed assets				-6 376	
Other intangible assets	944	0	944	-736	78 %
Other intangible asset w/o deferred tax	464	0	464	0	0 %
Goodwill	1 647	0	1 647	0	0 %
Capitalized exploration	257	0	257	-200	78 %
Abandonment provision	-5 172	0	-5 172	4 034	78 %
Other				-13	
Total				-3 291	
2022 movement				Deferred tax	
Change in deferred tax in the balance sheet				6 068	
- of which related to fiscal year 2022*				177	
- of which related to acquisition of Lundin Energy				5 802	
- of which related to prior period adjustments				28	
- of which related to deferred tax charged to OCI and equity				61	

*Sum of change in tax system (189) and change in deferred tax for 2022 (-12)