071 – Norwegian Oil and Gas Recommended guidelines for additional information from the operators for the annual accounts and audit of the licence accounts

Translated version

FOREWORD

These guidelines are recommended by the Norwegian Oil and Gas reference group on finance and its Fiscal Forum. They have also been approved by the director general

The responsible manager in Norwegian Oil and Gas is the manager, tax and legal affairs, who can be contacted via the Norwegian Oil and Gas switchboard on +47 51 84 65 00.

These guidelines have been prepared in collaboration with Aker BP, ConocoPhillips, Vår Energi, Equinor and Total. They represent an updating and expansion of Norwegian Oil and Gas guideline 071, published on 1 January 2001 and revised on 15 January 2013, to take account of the new accounting standard on leases implemented for the IFRS and the US GAAP with effect from 1 January 2019. The guidelines have been considered by the reference group on finance and the Fiscal Forum.

These Norwegian Oil and Gas guidelines have also been prepared with broad-based participation from stakeholders in the Norwegian petroleum industry and are owned by the Norwegian petroleum industry, represented by Norwegian Oil and Gas. Norwegian Oil and Gas is responsible their administration.

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1 INTRODUCTION

1.1 Purpose

Section 1.3.1, first sentence, of the accounting agreement states:
"The Parties are responsible for keeping their own accounts in accordance with Norwegian statutes, rules and regulations and in accordance with generally accepted accounting principles. The Operator's settlements and schedules shall be presented in such a way as to ensure that these conditions can be met. The Operator shall also supply the Non-Operators with other information which they can reasonably request in connection with keeping of the Non-Operators' accounts."

Section 1.3.1, letters a) to f) of the accounting agreement stipulates certain items of information which must be submitted periodically to the non-operators.

The monthly settlements do not provide enough information for the non-operators to meet their obligations to provide information in the notes to the annual accounts, nor sufficient data for their tax reporting. Listed companies may have additional requirements for information in their annual accounts (from the IFRS or US GAAP, for example). Information to supplement the monthly settlement is therefore required.

In order to reduce the operator's workload by standardising the reporting while also improving the flow of information to non-operators, Norwegian Oil and Gas has sought to provide recommended guidelines which include a non-exhaustive list of typical matters which the operator must inform about. The operator can thereby incorporate this in its routines for submitting information. Such submissions do not necessarily need to be provided as separate accounting information, but may equally well take the form of monthly operating reports or other standard reporting. These guidelines specify a recommended reporting frequency for individual items.

Overall reporting must reflect at all times the changing information requirements faced by the joint venture. The operator therefore has a duty, in addition to this recommendation for reporting standard items, to assess which relevant items must also be reported, based on actual events, amendments to regulations and so forth.

1.2 Terminology

IFRS – International Financial Reporting Standards
IAS – International Accounting Standards
NAA – Norwegian Accounting Act
NRS – Norwegian Accounting Standards Board
ASC – Accounting Standard Codification
SEC – US Securities and Exchange Commission
US GAAP – US generally accepted accounting principles

1.3 References

Appendix A to the production licence (joint venture agreement)
Appendix B to the production licence (accounting agreement)
Norwegian Tax Act
Regulations to the Norwegian Act on Petroleum Activities
Norwegian and international accounting rules

2 ADDITIONAL INFORMATION FROM THE OPERATOR

2.1 Additional monthly reporting

2.1.1 Allocations without deduction for tax, section 14-2, paragraph 2 of the Tax Act

Operators are recommended to provide continuous information to non-operators on allocations which fall into this category.

2.1.2 Information on the sale of fixed assets

Information on the sale of fixed assets should accompany the monthly settlement for the licence and as a minimum contain information on the investment year.

2.2 Quarterly additional reporting

2.2.1 Lease commitments

- **Reporting deadlines 28 February (1st quarter), 31 May (2nd quarter), 31 August (3rd quarter) and 30 November (4th quarter)**

On a general basis, applicable accounting rules pursuant to IFRS 16 Leases and ASC 842 Leases require that leases must be capitalised. Because of the complexity of this reporting, a standard template has been developed. See appendix B (lease accounting reporting template).

The regulations require that all lease commitments must be capitalised, but provide an opportunity to abstain from capitalising commitments shorter than 12 months. The recommended guideline is that quarterly reporting must include all significant leases longer than 12 months. It is up to the individual operator to decide what is significant for the individual joint venture.

Long-term lease commitments related to identifiable leased objects must be reported. This reporting applies to the actual lease of the fixed asset (capital part) in contracts. Special mention must be made of operational or service elements included in the lease, or significant variable elements.

Only that portion of rental payments which cannot be avoided (cancelled) must be reported, so that amounts in a possible option period will not be included until it is reasonably certain that the option will be exercised (normally after this has been discussed and agreed in the joint venture).

On-going quarterly reporting must contain information on the whole long-term lease commitment, and the activity which the underlying leased object has been used for so far that year must be reported – including actual and expected utilisation for the present quarter. Actual and expected utilisation is reported as a percentage breakdown between the activity dimensions of exploration, investment, operation and shutdown/removal.

In those cases where an agreement does not specifically identify the leased object and/or the latter is operated by the lessor, it cannot be considered a lease and must therefore be assessed for reporting as other long-term commitments (see section 2.3). Examples could include helicopter transport to and from offshore facilities and supply ships if these are not identified and the owner can replace them with a corresponding vessel.

A direct relationship must exist between the commitment and the joint venture. Where quarterly reporting is concerned, all leases signed by the operator on behalf of the licence partnership or by all licensees are included. If the lease has no relationship with the licence, it must not be included in the quarterly reporting.

Further details about annual reporting related to lease commitments are provided in section 2.3.4.

Detailed information on what should be reported is provided in the reporting template (appendix B).

2.3 Annual additional reporting

2.3.1 Differences between accounting and tax treatment

- **deadline 5th working day in January**

Differences between accounting and tax treatment must be reported. That could apply, for example, to costs which are capitalised for accounting purpose but expensed where tax is concerned – including inventories.

If the costs have different tax rates (onshore/offshore) this should be disclosed.

2.3.2 Allocations without deduction for tax, section 14-4, paragraph 2 of the Tax Act

- **deadline 5th working day in January**

The operator must provide a status report on interim reporting provided during the year (see monthly reporting).

2.3.3 Non-deductible costs

- **deadline 31 January**

The operator must report annually to the non-operators on non-deductible costs, such as entertainment, membership dues and so forth.

2.3.4 Cessation (shutdown and removal) expenses

- **deadline in good time before 31 December, preferably by 30 November**

The operator must submit an annual report to non-operators which covers all future cessation expenses. Information must be provided on basic assumptions for the cost estimates, including rig rates, exchange rates and other possible significant factors.

As a minimum, the annual estimate for cessation must contain the following.

- The estimate must be broken down by platform (facility). The number of wells forming the basis for the estimate must be specified.

- Estimated expenses must include the cost of plugging wells as well as shutdown and removal of facilities, including support functions, possible costs related to operating the platform from shutdown to removal, landing and scrapping on land.

- The estimate must be specified in NOK at current value.

- Where the proportion of foreign currency is significant, it must be stated – by specifying the percentage proportion of the individual currency, for example.

- Future cash flows forming the basis for the estimate must be specified by year.

2.3.5 Rental costs and other long-term commitments

- **deadline for reporting 10th working day in January**

This information is required for the notes to the annual accounts pursuant to sections 7-1, 7-13 and 7-21 of the NAA, NRS 14 – Leases and IFRS 16, as well as the ASC 842 and SEC requirements for companies reporting in accordance with US GAAP rules.

Contractual commitments related to long-term lease payments are discussed and covered under quarterly reporting in section 2.2.1. All other significant contractual commitments must be assessed, including those entered into on the basis of a development decision.

As with quarterly reporting of rental expenses, a direct relationship must exist between the commitment and the joint venture.

Rental expenses

In addition to ongoing information about commitments as described in 2.2.1, the regulations require further information related to actual rental expenses and lease commitments which have not been capitalised.

Annual reporting must cover:

- expenses for the year related to leases with a term of less than a year but longer than a month (not reported quarterly)
- expenses for the year related to variable rental payments not included in rental expenses under 2.2.1
- possible income from subleasing of the individual long-term lease.

Other long-term commitments

With other long-term commitments which include operation of the fixed assets, such as helicopter or transport services, the portion of the contractual operating amount which cannot be avoided must be reported.

The time to maturity of long-term commitments over the next five years must be accrued.

3 AUDIT OF THE LICENCE ACCOUNTS

Section 74 of the regulations to the Norwegian Act on Petroleum Activities requires the operators of licences with state participation to ensure that the annual accounts are audited by a state authorised public accountant, and that the audit report accords with RS 800. Each operator can submit a combined audit declaration for all licences subject to this requirement. The combined declaration must provide details of which licences the declaration covers and net expenses for each licence in the year covered by the audit.

Exemption from the applicable requirement can only be given by the Ministry of Petroleum and Energy on the basis of a specific application from the operator.

Appendix A: Revision history

The following changes have been made in revising these guidelines. They have primarily been updated to take account of the implementation of a new accounting standard for leases in the IFRS and the US GAAP with effect from 1 January 2019. The division into chapters has consequently been altered. Some translation revisions have also been made.

Amendments have been made to the following sections.

- 1.1: Minor text change, and reason for updating the guidelines moved to the foreword
- 1.2: Added IAS and ASC, and removed FAS
- 1.4: Moved to appendix A
- 2.0: Heading changed, since additional reporting does not apply only in connection with the annual accounts
- 2.1.1: Added as a subsection, no change in the text
- 2.1.2: Added as a subsection, no change in the text
- 2.2 New section on quarterly additional reporting added in connection with implementation of the new accounting standard for leases
- 2.2.1: Information on lease commitments moved from the chapter concerning annual and quarterly reporting to quarterly additional reporting, and updated with new requirements pursuant to the new accounting standard for leases
- 2.2.5: The section on restructuring has been removed since this referred only to the fact that necessary information sharing is adequately detailed in the accounting agreement
- 2.3: The section on environmental reporting has been removed since this referred only to non-operators receiving adequate information in the operator's annual report
- 2.3: The section numbering for annual additional reporting has been changed from 2.2 to 2.3
- 2.3.1: Minor changes to the text
- 2.3.2: Sub-section moved to 2.3, and minor changes to the text
- 2.3.3: Minor changes to the text
- 2.3.4: Text updated to clarify the level of detail the operator must include in the annual report to the licensees which covers all future cessation expenses
- 2.3.5: Heading updated, and deadline moved to the beginning of the sub-section. The description of lease commitments is moved to sub-section 2.2.1, but new requirements are added with regard to information needs related to notes to the accounts under the new accounting standard on leases. The text has been updated for other long-term commitments
- 2.4: The section on Statistics Norway has been removed since this referred only to the fact that it is covered by other recommendations/measures

- 3.0: Text revised and updated to show that the operator has the opportunity to submit a combined audit declaration for all the licences. The attached proposed text for statements from state authorised public accountants has been removed since a template of this kind is not used today by the audit companies.

Appendix B: Lease accounting reporting template