PWYP NORWAY

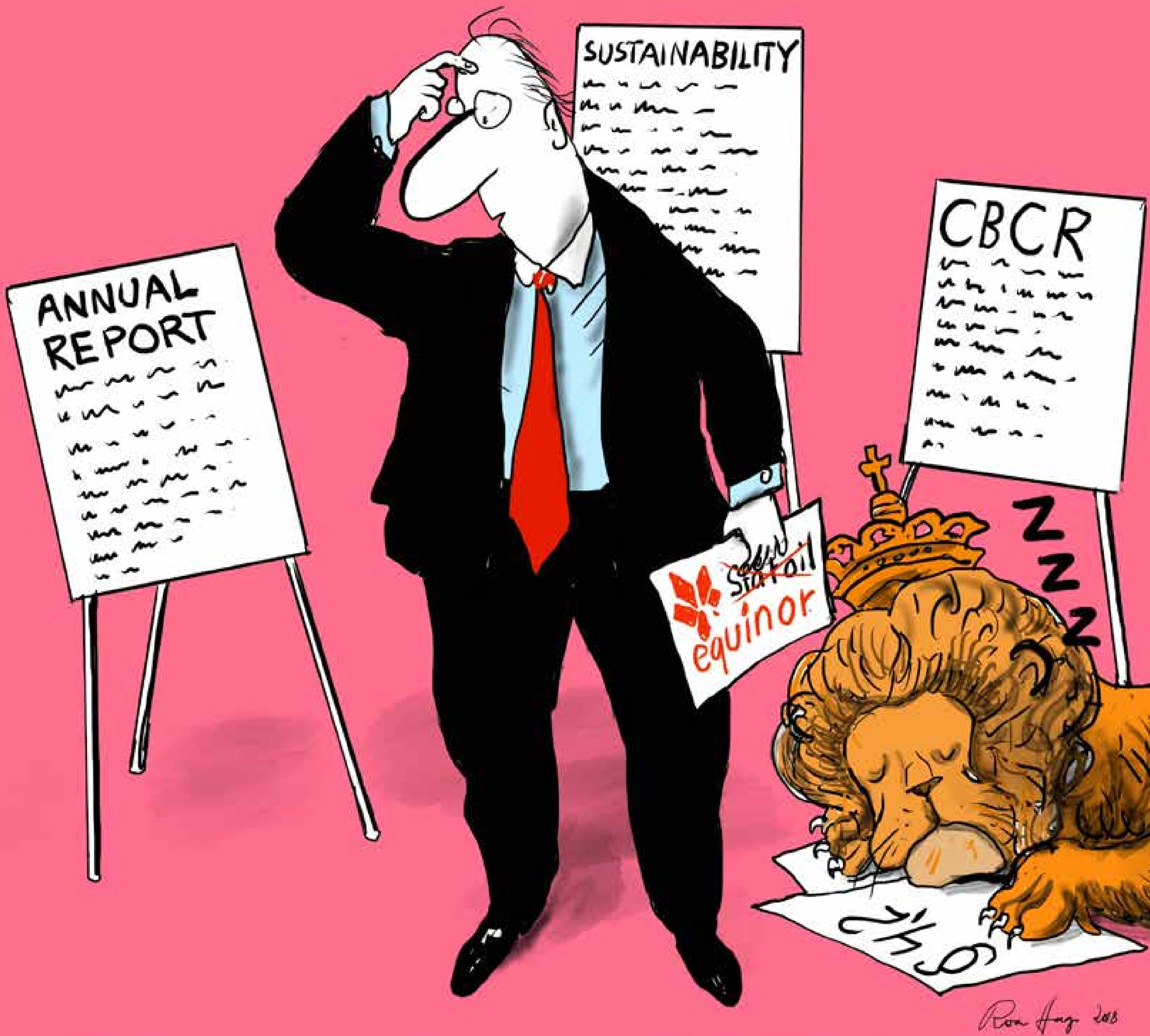
Making Transparency Possible

BRIEFING

OCTOBER 2018

- It is very positive that Statoil reports country-by-country information together with its annual accounts, and the legislator should ensure that this become standard
- Statoil still does not report eliminations separately, but here it is the legislator that needs to change the regulation to get a meaningful reporting
- It is still not possible, due to lack of information, to use the formula 1.1. Tax + Payable Tax – 31.12. Tax to reconcile tax in the accounts against taxes paid

The weaknesses are clearly showing ....but the regulator is sleeping



Norwegian regulation §4 with suggested changes

Below is included the Norwegian country-by-country regulation §4 with existing text in black and with PWYP Norway's recommendations in red text or ~~strikethrough~~. Lastly, a method to reorganize the regulation is suggested.

FOR-2013-12-20-1682 Regulation on country-by-country reporting:

§ 4. Report (PWYP Norway's recommended changes in red text or strike-through)

Businesses must prepare a report as mentioned in the Accounting Act § 3-3d and the Securities Trading Act § 5-5a, that must include at least the following information on payments to governments:

a) The total payment to every government during the accounting year, split on country and type of payment as listed in § 3 no. 5 letter a) through h).

b) Payments related to a project must also be reported per project and per type of payment as listed in § 3 no. 5 letter a) through h).

The disclosure requirement in paragraph one is not applicable to payments that amount to less than NOK 800 000, which are done individually or as consecutive payments within the same accounting year.

~~When~~ Independent of whether there is a duty to provide information on payments to governments, then the report must also contain information about the business' employees, investments, ~~sales revenue~~income, production volume (per type), ~~and~~ costs, this year's payable tax and the tax liability as of 1.1. and 31.12, split on the individual countries where the business has activity. Eliminations are to be reported separately. ~~The report should also include the company's interest cost to other companies in the same group which is domiciled in other jurisdictions than the company~~. The information in paragraph one and two shall, ~~as far as possible~~, be taken from the consolidated year-end accounts, reported in note to the accounts, and possible differences between the year-end accounts and the reporting must be explained.

Amounts paid by the company for obligations imposed at the unit level, can be reported at the unit level instead of at project level.

For payments in kind to a government, both the value and, when relevant, the volume, need to be reported. It is necessary to explain how the value is determined.

§5 Group reporting

[It is suggested that this section is repealed in its entirety, and that the reporting
- Is transferred to the CBCR-reporting (§4, 1. and 2. paragraph)
- Is transferred to the Extended CBCR-reporting (§4, 3. paragraph)
- Is transferred to CBCR-reporting for tax purposes (regulation on country-by-country reporting to tax authorities)
- or is removed]

Reasoning behind demands for changes to the regulation

Reporting of payments to governments is called country-by-country reporting, shortened CBCR, and is meant to help keep the individual country responsible for the correct receipt of taxes paid, i.e. an instrument against corruption within state agencies.

Reporting of tax payments together with key numbers like employees, investments, revenues and cost is called Extended Country-by-Country reporting, shorted ECBCR, and is meant to put the taxes paid in their proper context. This information should be reported in a note to the accounts because this is financial information which ties the profit and loss statement and the balance sheet together with the CBC-report where the tax payments are further detailed.

The weaknesses are clearly showing... but the regulator is sleeping

In order to correct the errors in the reporting, it is essential that the regulations are precise and the reported information is reliable. The following amendments to the regulatory text are thus proposed (with the reasons):

- ALL countries must be reported without exception, otherwise the sum of all country's reports will not match with the audited consolidated accounts before eliminations and eliminations. This is the reason for the proposed amendments to Section 4, second paragraph, first two sentences.
- ALL income must be reported, and that is the reason for replacing the term "sales revenue" with "income". A company can always provide additional information if the reported income is viewed as misleading.
- Production has different market prices per product, and it is therefore essential that production is reported per product or by type of production, e.g. oil and gas production separately.
- The reporting must be EXACTLY in accordance with the figures included in the consolidated financial statements, i.e. that investments, revenues and costs per country must be reported BEFORE eliminations, AND eliminations must be reported separately. This is the reason for the addition that elimination must be reported separately in country-by-country numbers, i.e. as a separate «country».
- In order to give the reported figures the necessary credibility and information value to investors and others, it is essential that the extended figures are reported in the notes to the audited financial statements.

In addition, in the note to the accounts there should be a reconciliation of tax in the accounts and taxes paid in the CBC report as follows:

1.1. tax liability + payable tax for the year – 31.12. tax liability = Paid tax reported specified per country.

Taxes that do not fall within "Paid tax" should be reported in separate columns in the CBC report.

Which accounting numbers

The reasons behind which 8 accounting figures Publish What You Pay Norway believes should be reported are:

1: Employees are essential to assess which countries are subject to taxable activity (resource retrieval, processing and sales) and which countries have only supporting activities.

2: Investments are essential for assessing the economic exposure to a country. The world is constantly changing, and for investors it is vital to know what investments have been made and to have a dialogue with the company about its involvement in different countries. Investment is one part of economic value, because it is on the investment one expects return (on investment).

3 and 4: Income and expenses are significant amounts that are necessary to know separately in order to determine how the return is in relation to the tax payments. It is not adequate to know income or net returns. Revenues less cost less tax represents the other part of economic value, i.e. the return on the investment (financed by debt and equity).

5: Production per type is essential for assessing the income of a company (volume * price per type). Overall, across all companies, output per type would also dramatically improve national and international statistics when coming so far that all companies in a country or part of the world report expanded country-by-country information.

6: Tax payable in the income statement are the taxes that are ACCRUED to match the accounting figures above. Can consist of both payable taxes on the tax line and fees expensed as cost in the accounts (if not reported separately).

7 and 8: Tax payable in the balance sheet 1.1. and 31.12. are the accruals that allow you to convert ACCRUED taxes in the profit and loss statement into PAID taxes to the authorities in the different countries throughout the year.

How accounting numbers should be reported in notes to the accounts

Example of reporting of Extended Country-by-Country information in Statoils Year-End report for 2017, collected to a reporting PWYP Norway that could be included as a note to the accounts:

Extended CBCR	1	2	4	4	5	5	5	6	7	8	= CBCR
↑ up from 2016 ↓ down from 2016 - unchanged or unknown	Employees	Investments	Revenues	Cost	Oil production	Gas production	Total production	Tax accrued	Tax liability 1.1.	Tax liability 31.12.	Total value paid
	Number of	Mill USD	Mill USD	Mill USD	mmboe	mmboe	mmboe	Mill USD	Mill USD	Mill USD	Mill USD
Algeria (Nor)	27 ↓	135,0 ↓	621 ↑	57 ↓	-	22,9 ↑	23 ↑	?	?	?	121 ↑
Angola (Nor)	15 ↓	208,0 ↓	3439 ↑	419 ↓	71,5 ↓	-	72 ↓	?	?	?	558 ↓
+ Argentina		- -	- -	6 ↑							- -
Australia		0,0 ↓	0 -	8 ↓	0,0 -	-	0 -	?	?	?	- -
Azerbaijan (Nor)	11 ↑	429,0 ↑	392 ↓	92 ↑	17,9 ↓	-	18 ↓	?	?	?	43 ↓
Brazil	323 ↑	988,0 ↓	564 ↑	389 ↓	14,6 ↑	-	15 ↑	?	?	?	0 ↓
Canada	131 ↓	140,0 ↓	365 ↓	633 ↓	6,2 ↓	-	6 ↓	?	?	?	-1 ↓
China	6 ↓	- -	- -	- -	-	-	- -	?	?	?	
Colombia		0,0 ↓	- -	71 ↑	-	-	- -	?	?	?	
Faroe Islands	0 ↓	- -	0 ↓	4 ↑	-	-	- -	?	?	?	
Greenland		- -	- -	6 ↑	-	-	- -	?	?	?	
Indonesia (Nld)	19 ↓	- -	- -	9 -	-	-	- -	?	?	?	0 ↓
Iran		- -	1 ↑	-2 ↑	-	-	- -	?	?	?	5 ↑
Ireland	2 -	-1,0 ↓	278 ↑	82 ↑	-	7,3 ↑	7 -	?	?	?	0 ↓
Kazakhstan (Nor)	1 -	- -	- -	- -	-	-	-	?	?	?	
Libya (Nor)	3 -	3,0 ↑	43 ↑	6 ↓	1,3 ↑	-	1 ↑	?	?	?	27 ↑
Mexico (Nor)	5 ↑	- -	- -	34 ↑	-	-	- -	?	?	?	
+ Mozambique		- -		6 ↑			- -				
Myanmar		0,0 ↓	- -	7 ↓	-	-	- -	?	?	?	
Netherlands	8 ↓	0,0 ↓	0 ↑	12 ↓	-	-	- -	?	?	?	0 -
New Zealand		0,0 ↓	- -	18 ↑	-	-	- -	?	?	?	
Nicaragua		- -	- -	6 ↑	-	-	- -	?	?	?	0 ↓
Nigeria	12 ↑	70,0 ↓	617 ↑	125 ↑	17,4 ↑	-	17 -	?	?	?	282 ↓
Norway	17632 ↓	4886,0 ↓	17546 ↑	3426 ↑	216,8	270,1	487 ↑	?	?	?	5025 ↑
Russia (Nor)	53 ↑	39,0 ↓	122 ↑	99 ↑	3,4 -	-	3 -	?	?	?	11 ↓
South Africa		15,0 ↑	- -	16 ↑			- -				
South Korea		- -	- -	- -	-	-	- -	?	?	?	0 ↓
Suriname		- -	- -	23 ↑	-	-	- -	?	?	?	
Sweden		0,0 ↓	126 ↑	5 ↑	-	-	- -	?	?	?	
Tanzania	21 -	0,0 ↓	0 -	46 ↑	-	-	- -	?	?	?	0 ↓
Turkey		28,0 ↑	- -	19 ↑	-	-	- -	?	?	?	
UAE	3 ↑	- -	- -	4 ↑			- -				
UK	142 ↓	563,0 ↓	45 ↑	106 ↓	0,8 ↓	0,0 ↓	1 -	?	?	?	-8 ↓
Uruguay		- -	- -	11 ↑			- -				
USA	984 ↑	2428,0 ↑	2788 ↑	1079 ↓	60,0 ↑	46,9 ↓	107 ↑	?	?	?	97 ↓
Venezuela (Nor)	22 ↓	0,0 ↓	1 ↑	7 ↑	1,8 ↓	-	2 ↓	?	?	?	
								?	?	?	
Elimineringer		?	?	?							
Norway upstream	17618 ↓	4886,0 ↓	17546 ↑	3426 ↑	216,8	270,1	487 ↑	?	?	?	5025 ↑
Int upstream	1802 ↓	5046,0 ↓	9401 ↑	3399 ↓	194,9	77,1	272 -				1136 ↓
TOTALT Upstream	19420 ↓	9932,0 ↓	26947 ↑	6825 ↓	411,7	347,2	759 ↑				6161 ↓
MMP	478 -	320,0 -									
GSB, TPD, NES, C&S	347 -	543,0 -									
TOTALT Statoil	20245 ↓	10795 ↓									
Countries marked * are countries with support functions, downstream or entry/exit countries	Statoil 20F report page 260+	Statoil Year-end report page 259	Statoil Year-end report page 259	Statoil Year-end report page 259	Total production split on oil and gas in order to easier control revenues (not exact)		Statoil Year-end report page 28, mmboe	The information for reconciling the accrued tax in the accounts with the paid tax in the country-by-country reporting is missing			Tax in the CBC report

CONTROL against the Year-End report	Employees = Norway 17632 and 20245 total ** Source: Our employees page 81*
	Investments = 10795 – of which E&P Norway 4869, E&P International 5063. ** Source: Segment reporting page 147* *Inaccuracy of 17 +/- between E&P Norway and E&P International, but the total match.*
	Income = 17563 + 9233 = 26796, i.e. 150 below Extended CBC-reporting, mainly E&P Int ** Source: Segment reporting page 147*
	Cost = Other cost + exploration cost = 6818. Other cost + exploration expenses = 6992. Inaccuracy in relation to segment reporting – uncertain origin ** Source: Segment reporting page 147 plus Note 11 Immaterial Assets*
	Production: Norwegian shelf split exact oil/gas, deviation 0,8 mmboe can be due to deviation in lifting on the fields International split on fields Total 2080 * 365 / 1000 = 759,2 **Source: Key numbers page 9*
	Taxes: No control options

*Countries with support functions: Bahamas and Belgium. Countries with downstream: China, Denmark, Germany, Singapore, Sverige and USA.
NOR = country supported out of Norway; NLD = country supported out of the Netherlands

Comments to Statoil's reporting

It is very positive that Statoil reports country-by-country information together with the annual accounts. This shows legislators that it is fully possible to reduce the cost of extended country-by-country reporting to a minimum (drop a separate report).

In "Consolidated Overview" it is the column "Taxes" that will match "Paid Tax" in the reconciliation.

1.1. tax liability + payable tax for the year – 31.12. tax liability = Paid tax reported specified per country.

There is insufficient information to complete the reconciliation. This shows that the legislator must complete the regulation in order to be able to see the information in the context in which it appears.

In "Contextual information at country level" there is ample space for the missing information; employees, production broken down on liquid (oil and ngl) and gas, payable taxes for the year and tax liability 1.1. and 31.12.

In "Contextual information at Statoil group level", Statoil has complied with §5 of the Regulations, which shows that the current regulations entail a mixture of information that does not provide a logical reporting of taxes in context:

- The Employees column could be relocated to "Contextual information at country level" as national level is sufficient for this type of information.
- Net Intercompany Interest is an unnecessary column. The legislator should remove this column as this information naturally belongs to a tax return reporting, possibly transferring this to country-by-country reporting to the tax authorities (CBC for tax reporting).
- Revenues and Costs are reported in this overview as it should be reported in "Contextual information at country level". However, as long as eliminations are not reported as a separate line, and as long as these columns include externally purchased production, neither the individual countries nor the total will be correct. This is what we mean when we say that there are mistakes in the reporting, as one through Statoil's reporting do not get a good overview of Statoil's own upstream business as is meant by the Extended CBC reporting.
  - To get satisfactory information, the Revenues column should have been moved to "Contextual information at country level" and confined to the upstream business, and costs should have been reported in the same way with eliminations on a separate line. Should midstream and downstream operations be reported, this should have been done separately from the upstream business. It is the legislator's task to clean up this.
- The Income Before Tax column should have been moved in front of the "Taxes" column in the CBC report as these two numbers are linked, or alternatively expand the Extended CBC reporting with this number.
- The Income Tax Expense column is an unnecessary column as long as "Income before Tax" is reported. The legislator should remove this column as this information is part of a tax return reporting. The alternative is therefore to transfer it to the CBCR for Tax reporting to the tax authorities.
- The Income Tax Paid column does not match what is reported country by country (6097 vs 6161) and should have been removed by the legislator. As a minimum, Statoil should ensure that reporting is similar within one and the same reporting (PWYP Norway has been based on 20F reporting and verified against the annual report).
- The Retained Earnings column should, as far as it is included, be moved to "Contextual information at country level" and reported by country or removed because information at this level of detail is best resolved in the tax return. This is again a legislative task to clean up the regulation.

All columns in "Contextual Information at Statoil Group Level" could thus beneficially have been relocated either to the Extended CBCR (Number of Employees, Revenues, Retained Earnings), CBCR (Income before Tax), Income Tax Paid Reporting or be eliminated because it provides information on tax return level (Net Intercompany Interest, Income Tax Expense). This means that the legislator may remove all of §5 of the Regulation and strengthen §4, 1st and 2nd paragraphs (CBC reporting) and Section 4, 3rd paragraph (Extended CBC reporting). As the regulations work today, one does not get an overview of the company's tax situation in context because the information is either

- too little or non-existent (Employees at country level, Tax Liability 1.1. and 31.12),
- too much (Employees at company level, Net intercompany interest, Revenues upstream and midstream / downstream together, Income tax expense),
- reported double (Income tax paid)
- or is in the incorrect place (Income before tax which should have been reported in CBC reporting and Retained earnings which should have been reported in the Extended CBC reporting).

Statoil has put forward a good example and included the CBC report and the Extended CBC report in an appendix at the back of the annual report. In this manner they have made the CBCR and the Extended CBCR information available for all interested readers of the annual report. What makes the reporting poor is the Group reporting requirement in the country-by-country regulations §5, that causes information to be reported at the wrong level, not in context, or at the incorrect place so that the information is presented piecemeal and cannot be read as a whole. Here, the legislator should help streamline the country-by-country reporting into CBC reporting (reporting of taxes), Extended CBC reporting (reporting of the context that taxes appear in), and CBCR for Tax (country-by-country reporting to the tax authorities). Section 5 of the country-by-country regulation therefore appears as a bastard, and this section should be deleted and the reporting spread on CBCR, Extended CBCR and CBC for Tax reporting.

The 8 key figures should be stated in the notes to the accounts: see above how the 4 key figures that Statoil has reported as extended information can easily be expanded to the 8 key figures requested by civil society (and others supporting civil society in this question). Then Statoil's reporting would be complete when it comes to Extended CBC reporting.

Analysis of Statoil's reporting

Statoil's reporting still does not contain country-by-country information BEFORE elimination and elimination shown separately for the upstream business. In the group reporting there is information before elimination, but there upstream is mixed with midstream and there is no corresponding information on costs. This means that accounting figures from third countries (support countries) are not shown in the overview of upstream separately, and therefore the purpose of the extended information is not achieved: exact accounting figures as they exist for ALL countries included in the upstream accounts plus eliminations separately.

Also, there is insufficient information to reconcile this year's tax in the accounts with taxes paid in the CBC reporting. Other tax-related information is spread and handled differently by Statoil, which makes it impossible to put together a reasonable context for Statoil's upstream tax payments.

Despite activity in more than 35 countries, there are tax payments above USD 15 million only to 6 countries: Algeria, Angola, Azerbaijan, Libya, Nigeria and the United States. In two countries, tax payments can be expected in a short period of time: Brazil and the UK.

In the other countries, Statoil's activity is either on its way down (Canada), leading to losses, or in an early investment phase. From an investor perspective, it must be questioned whether Statoil's investments in some of these countries are so late that there is a high risk both with respect to returns and taxation from operations in these countries.

The weaknesses are clearly showing… but the regulator is sleeping

EXTENDED COUNTRY-BY-COUNTRY REPORTING IN OTHER COMPANIES

In Norway Aker BP, DNO, and Hydro are amongst the companies reporting in accordance with the regulation.

Aker BP

The company has only operations in Norway and the country-by-country reporting is therefore limited. The company has included in its ownership management report both payments and information about the context.

Investments, revenues and production are reported, including reference to note information, but these references are incorrect. It is also slightly sensational that the company still has not become aware of that the purchase of goods and services has been replaced by total costs as of December 22, 2016. It is only a general reference to the accounts on this point and the term "purchase of goods and services" without reporting the cost itself. Reporting is therefore worse in 2017 than in the 2016 report and is characterized by the fact that the information is either not referenced correctly (purchase of goods and services) or insufficiently quality assured (reference to note 8 instead of 7).

Income and production are reported and are consisted with the accounts. Income and production are split by type in the notes.

The company limits disclosing taxes to the requirement in the regulation, and has not considered the natural reconciliation between tax in the accounts and taxes paid. In essence, it is possible to get a good overview of the relationships, but there is a lot of back and forth. A simple setup would significantly simplify the message.

The company's reporting is an example of why reporting should be standardized in the annual report of the companies.

DNO

The company has made its own country-by-country reporting, which is highly transparent and designed on one page, which could be advantageously incorporated into the annual report for better dissemination to investors and other stakeholders. In 2017, the company follows the regulatory change of December 22, 2016 and reports full costs. The company has failed to include production per type, but total production is available elsewhere in the report. The company could advantageously split the table into two and report extended information regarding reconciliation of tax in the accounts with taxes paid, and report tax types by country in a separate table summarizing total payments to authorities. The company has not included eliminations and it is therefore the same issues with analyzing DNO's figures as it is analyzing Statoil's figures.

Hydro

The company has made a very comprehensive Extended country-by-country reporting as an appendix to the Board's annual report. Hydro has therefore made the dissemination of information to investors and other stakeholders very good. The two things needed to complete the reporting of Hydro are reporting eliminations separately so that figures that provide context are reported before eliminations and that there should be a reconciliation of tax in the accounts with the taxes paid. Since the company has not included eliminations, it is therefore the same problem with analyzing Hydro's figures as it is analyzing Statoil's and DNO's numbers.

@PWYPNorway facebook.com/PWYPNorway YouTube PublishWhatYouPay Norway

PWYP Norway is the Norwegian chapter in a network of 800 organisations from more than 70 countries worldwide. We work for financial transparency in the extractive industry to promote sustainable societies.

ISBN 978-82-93212-83-6

PWYP NORWAY

Making Transparency Possible