



- Equinor's reporting of contextual information is in some places best practice and in other places a complete mess! Read the briefing for more information.
- Equinor would be well served by expanding the table on page 282 in the Annual Report to include the information in the format PWYP Norway has suggested. There is ample space in the table, and they have the information anyway, so why not just do it?
- Major improvements to the reporting of production, investments and cost are needed. Employees only need specification of what they are (and moving them into the ECBC table), while revenues need minor adjustments.
- The link between the tax expense and the taxes paid is still missing, and the lack of clarity in the taxes that Equinor is reporting shows that this is sorely needed.

## The last leg – will the regulator save the industry from chaos?



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Published by: Publish What You Pay Norway (PWYP Norway)  
Year of publication: 2019  
ISBN 978-82-93212-94-2  
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Print: Copy Cat

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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]

2. CBCR (TAXES) AND EXTENDED CBCR (CONTEXT OF TAXES)

The reporting of payments to governments is called country-by-country reporting, shortened to 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, shortened to 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, the balance sheet and the cash flow analysis together with the CBC-report where the tax payments are further detailed.

3. THE NEED FOR GLOBAL STANDARD SETTERS ON CONTEXTUAL INFORMATION TO CBCR

Country-by-Country reporting started as a reporting of taxes in the US and the EU. Both of these were reportings on taxes only, and lacked any contextual information. Only Norway (public reporting in extractives and forestry), France (public reporting in the finance sector) and OECD (closed reporting of all sectors) require contextual information together with the CBC reporting. In Norway, there are still a few remaining weaknesses to be addressed before an adequate regulation is in place. The same seems to be the case for France and the OECD CBCR reporting.

Contextual information is critically important to ensure that taxes can be understood correctly. However, a sound theoretical base is necessary for the requirements on contextual information as there needs to be a practical usage of the information by the identified stakeholders.

Interestingly, there is a basic foundation of contextual information that is just as relevant for public CBCR as for closed CBCR. Other information that is added is likely to differ for public versus closed CBCR as the stakeholder needs are different, but the basic foundation of contextual information is the same for both public and closed CBCR.

There should be two global standard setters for contextual information to ensure uniform development of the country-by-country standards worldwide:

- OECD has begun standard setting of the closed CBC reporting, including contextual information, to tax administrations. OECD and/or the UN should be setting the standards for tax administrations. However, the basic foundation of contextual information discussed for public CBCR purposes in this briefing is just as relevant for the closed CBCR development.
- IFRS should create a standard for CBC reporting, including contextual information, to investors and other public stakeholders. The basic foundation of contextual information discussed in this briefing is the minimum information required for a public CBCR, but the IFRS would be a natural body where other possible country-by-country contextual information could be discussed and developed.

Having two (or three including UN) standard setters, one for closed CBCR and the other for public CBCR, would ensure a uniform development of the country-by-country reporting standards, including contextual information, worldwide.

4. A SOUND THEORETICAL BASE FOR PRACTICAL USAGE OF CBCR AND EXTENDED CBCR

8 numbers<sup>1</sup> form the necessary basis of contextual information that companies need to provide to ensure adequate information to the stakeholders of public and closed CBCR. In this briefing we will not concern ourselves with the closed CBCR reporting, but focus on the needs of investors and other public stakeholders relying on proper development of the public CBCR.

The four major stakeholders in public CBCR are:

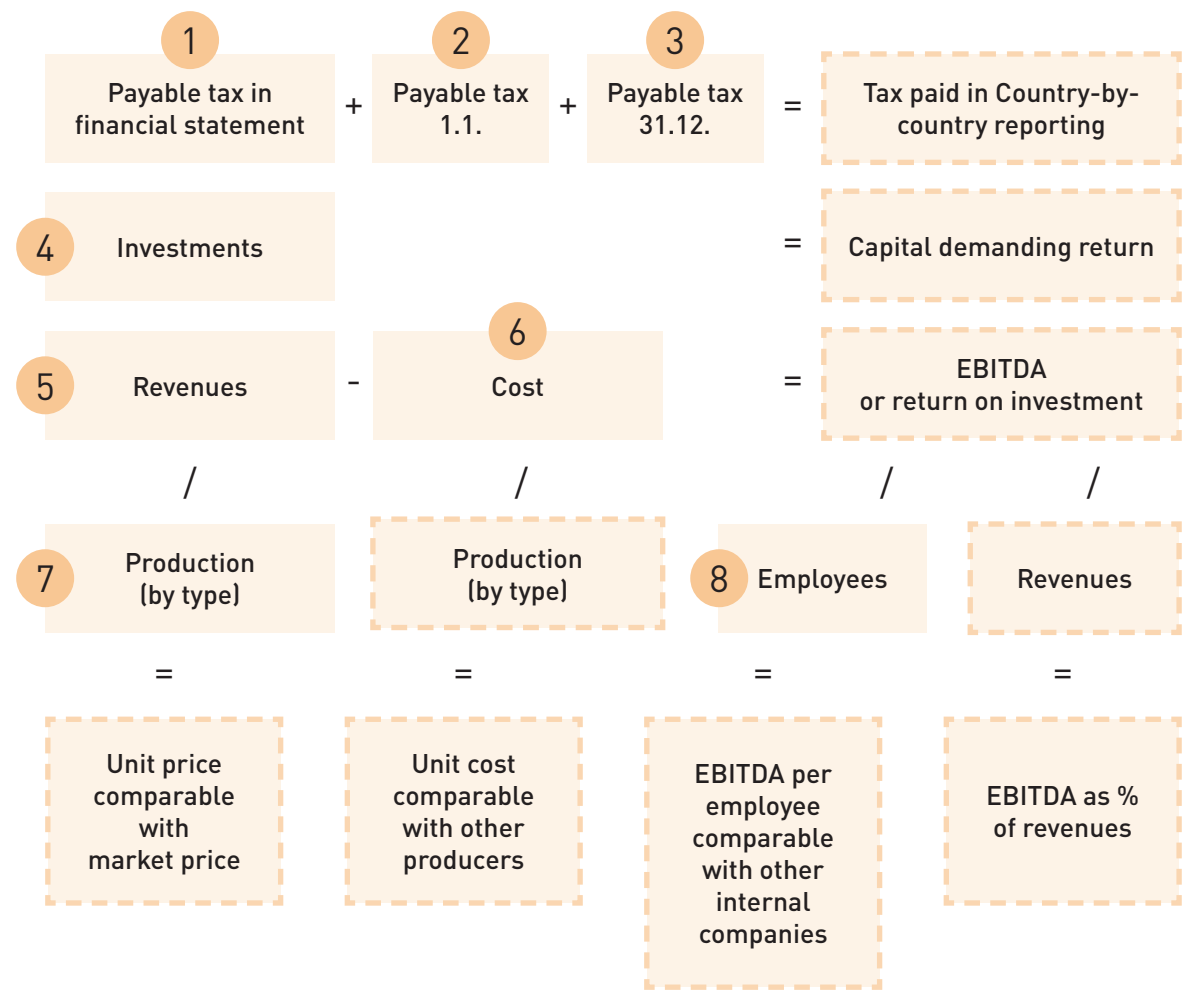
- Investors – risk analysis and investment priorities
- Regulators – statistics and competition regulation (securing level competition between companies)
- Media – serving the public interest and watchdog of governments and businesses
- Society at large – a sustainable world where governments, businesses and media are doing the right things

The most immediate need for public CBCR is for investors who are going to invest in companies. In order to make proper investment decisions, investors need reliable, standardized information on key financial numbers broken down to the country level to ensure that the investor is able to do a proper risk analysis of each business based on the performance of the activities in each country where the multinational company has a presence.

<sup>1</sup> See "Guide to extended country-by-country reporting [ECBCR] for businesses", PWYP Norway, December 2018 for more information about the theoretical reasoning behind the choice of these 8 numbers. This briefing concentrates on demonstrating the practical usages of a well-designed CBC reporting including contextual information.

The reason for this is to ensure that the company’s risk profile matches, inasmuch as possible, the risk profile desired by the investor. The country-by-country analysis and the supporting contextual information are ideal for this purpose as they will, when correctly implemented in regulations, secure a minimum level of relevant financial information at the country level. This is information that is lacking in the current accounting standards, and the CBCR and its contextual information hence fill an information gap that exists today.

5. ANALYTICAL FRAMEWORK OF COUNTRY-BY-COUNTRY REPORTING AND ITS CONTEXTUAL INFORMATION



Source: PWYP Norway 2019

The 8 numbers identified in the analytical framework in figure 1 bridge the gaps that exist between economics, accounting and taxation in today’s reporting by companies to their stakeholders:

- Payable tax in the financial statement (1), Payable tax 1.1. (2) and Payable tax 31.12. (3) provide the link between payable taxes according to the accounting rules and the paid income taxes as reported country by country. To this is added the other taxes in the CBC reporting so that more comprehensive analyses can be done on the total payments to governments.
- (4) Cash investments for the year, as found in the standardized reporting of investments in the Cash Flow Statement, is the accounting version of invested capital demanding economic returns in economics.

- (5) Revenues less (6) cost (excluding depreciation and amortization) make up EBITDA (earnings before interest, tax, depreciation and amortization), a standardized accounting number which constitutes the accounting version of return on invested capital in economics.
- By including (7) production by type and (8) number of employees, a number of analyzes can be performed (some of which are shown in figure 1 above) which can be further developed using the total payments to governments in the CBC reporting.

This is information that is highly relevant for all investors and which therefore forms the basis for contextual information that is desirable in a public CBCR. It is likely there is other information that would also be a relevant part of a public CBCR, but the 8 numbers identified form a minimum information requirement that, were parts of it missing, would make it increasingly difficult to make sense of the CBC reporting and the supporting contextual information.

6. WHO SHOULD REPORT CBCR AND THE CONTEXTUAL INFORMATION?

Ideally all companies that seek public financing (financing in equity markets and/or debt markets) should report the contextual information. This is to ensure standardized information from all companies, securing equal competitive terms for all companies seeking funding in open capital markets. The only companies that should be exempt are the companies that are privately owned and privately financed, unless they are extracting and producing non-renewable resources or vulnerable renewable resources.

For domestic companies this is easy, as they only have information from one country, and they only need to collect and present this information in a note to the financial statement, making it easy to collect the information for statistical purposes. To be compliant on the CBC reporting, the only thing domestic companies need to do is to provide information on the paid (income) tax and total government payments in their tax note.

For multinational companies, this is also easy, because each multinational company needs all the 8 numbers to provide for consolidation of their group financial statements (consolidating the companies from the different countries):

- Current year Payable tax is necessary for the profit & loss statement consolidation
- Payable Tax 1.1. and 31.12. are necessary for the balance sheet consolidation
- Investments are necessary for the cash flow statement consolidation
- Revenues and costs are necessary for the profit & loss statement consolidation
- Production by type is necessary for the consolidation of notes to the accounts
- Number of employees is necessary for the Board of Directors report or notes to the accounts

Eliminations affecting the numbers in the consolidation process are handled separately, and should thus also be reported in a separate column or row, separately from the country by country reporting of the other contextual information.

*The current priority however, before CBCR and contextual information is to be reported by all companies seeking public financing, is to ensure (1) that those companies that are currently reporting CBCR and contextual information are given a regulation that allows for the minimum reporting requirements as discussed above and (2) that companies currently reporting CBCR but not reporting contextual information start to report contextual information using the minimum reporting requirements. Only when these two requirements are fulfilled is it pertinent to expand the regulation to include more companies.*



7. THE PURPOSES BEHIND THE CONTEXTUAL INFORMATION REQUIREMENTS

Contextual information must be reported in a note to the financial statement for all companies seeking public financing for the following reasons:

- standardization purposes – the financial statement is the only standard reporting for every business
- statistical purposes - the current statistical reporting throughout the world is weak – this would be significantly strengthened if all companies were required to provide the minimum required information in a standardized way (note to the financial statement), particularly production of non-renewable resources
- competition purposes - this information should be available for all companies seeking public financing or producing non-renewable or vulnerable renewable resources for non-discriminatory purposes (but only multinational companies need to provide a CBC report as domestic companies only pay tax to one country - domestic companies can give the tax information in the tax note to the financial statement; multinational companies can give the tax payments in the CBC report, but the CBC report should be published together with the financial statement)
- sustainability purposes - all companies producing non-renewable resources and vulnerable renewable resources must provide information on production per type in order to secure adequate information to enable follow-up of the UN sustainable development goals

Contextual information must be reported for all countries by companies required to report so that the information can be aggregated up to the group financial numbers. This means that contextual information must be reported for all countries independently of whether there are any payments to governments or not. Every country should be reported, and any eliminations to reach the group financial statement numbers must be reported separately.

8. HOW ACCOUNTING NUMBERS SHOULD BE REPORTED IN NOTES TO THE ACCOUNTS - EXAMPLE

Example of reporting of Extended CBC information in Equinor’s Year-End report for 2018, collected to a reporting 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 2017 ↓ down from 2017 - unchanged or unknown	Employees	Investments	Revenues	Cost	Oil production	Gas/NGL 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
Norway	17713 ↑	6950,0 ↑	22456 ↑	3834 ↑	155 ↓	305 ↑	460 ↓	10538	?	?	8312 ↑
Algeria (Nor)	26 ↓	46,0 ↓	872 ↑	66 ↑	-	24,3 ↑	24 ↑	345	?	?	222 ↑
Angola (Nor)	13 ↓	72,0 ↓	2721 ↓	405 ↓	61,9 ↓	-	62 ↓	460	?	?	395 ↓
Argentina (Nld)	1 -	61,0 ↑	- -	32 ↑	-	-	-	-	-	-	-
Australia (Nld)	1 -	2,0 ↑	- -	14 ↑	0,0 -	-	0 -	?	?	?	- -
Azerbaijan (Nor)	10 ↓	88,0 ↓	381 ↓	78 ↓	15,5 ↓	-	16 ↓	41	?	?	41 ↓
Brazil	455 ↑	3518,0 ↑	1279 ↑	619 ↑	23,9 ↑	-	24 ↑	195	?	?	94 ↑
Canada	113 ↓	79,0 ↓	434 ↑	227 ↓	6,6 ↑	-	7 ↑	-579	?	?	0 -
China + (Nor)	6 ↑	- -	- -	- -	-	-	- -	1	?	?	0 -
Colombia	- -	- -	- -	2 ↓	-	-	- -	?	?	?	-
Faroe Islands – exit	- -	- -	- -	- -	-	-	- -	?	?	?	-
Greenland	- -	- -	- -	1 ↓	- -	-	- -	?	?	?	-
Indonesia (Nld)	18 ↓	- -	- -	11 -	-	-	- -	0	?	?	0 -
Iran	- -	- -	1 -	- 4 ↓	-	-	- -	?	?	?	0 ↓
Ireland	2 -	0,0 -	405 ↑	142 ↑	-	7,0 ↓	7 -	-154	?	?	0 -
Kazakhstan	1 -	- -	- -	- -	-	-	-	?	?	?	-
Libya (Nor)	3 -	- 3,0 -	134 ↑	7 ↓	3,0 ↑	-	3 ↑	77	?	?	76 ↑
Mexico (Nor)	4 ↑	- -	- -	18 ↓	-	-	- -	1	?	?	0 -
Mozambique – exit	- -	- -	- -	- -	-	-	- -	-	-	-	-
Myanmar – exit	- -	- -	- -	- -	-	-	- -	-	-	-	-
Netherlands	12 ↑	- -	- -	- 3 -	-	-	- -	9	?	?	0 -
New Zealand	- -	- -	- -	6 ↓	-	-	- -	?	?	?	-
Nicaragua	- -	- -	- -	22 ↑	-	-	- -	-1	?	?	0 -
Nigeria	13 ↑	77,0 ↑	1499 ↑	103 ↓	15,7 ↓	-	16 -	539	?	?	340 ↑
Russia (Nor)	81 ↑	109,0 ↑	168 ↑	103 -	3,5 -	-	4 -	25	?	?	15 ↑
South Africa	- -	10,0 -	- -	9 ↓	-	-	- -	-	-	-	0 -
South Korea – exit	- -	- -	- -	- -	-	-	- -	?	?	?	-
Suriname	- -	- -	- -	8 ↓	-	-	- -	?	?	?	-
Sweden	- -	- -	10 ↓	- -	-	-	- -	?	?	?	-
Tanzania (Nor)	20 -	- -	- -	30 ↓	-	-	- -	?	?	?	-
Turkey (Nld)	1 -	24,0 ↓	- -	12 ↓	-	-	- -	-9	?	?	0 -
UAE (Nld)	3 -	- -	- -	3 -	-	-	- -	-	-	-	-
UK	157 ↑	713,0 ↑	93 ↑	124 ↑	0,6 ↓	0,0 ↓	1 -	-196	?	?	0 -
Uruguay -exit	- -	- -	- -	0 ↓	-	-	- -	-	-	-	-
USA	1023 ↑	2605,0 ↑	4421 ↑	1824 ↑	48 ↓	101 ↑	149 ↑	0	?	?	150 ↑
Venezuela (Nor)	19 ↓	- -	1 -	11 ↑	-	-	-	-4	?	?	0 -
								?	?	?	
Eliminations		?	-31355 ?	?							
Norway upstream	17713 ↑	6950,0 ↑	22475 ↑	3834 ↑	155 ↓	305 ↑	460 ↓	10538	?	?	8312↑
Int upstream	1982 ↑	7400,0 ↑	12399 ↑	3870 ↑	?	?	310 ↑	750			1334 ↑
TOTALT Upstream	19695 ↑	14350,0 ↑	34874 ↑	7704 ↑	?	?	770 ↑				9646 ↑
MMP	471 ↓	?	75794 ?	?			8			10	
GSB, TPD, NES, C&S	359 ↑	?	280 ?	?			16			18	
TOTALT Statoil	20525 ↑	15200,0 ?	79593 ?	50207 ?							
Countries marked * are countries with support functions, downstream or entry/exit countries	= Equinor 20F report page 20	From Equinor 20F report page 282	From Equinor 20F report page 282 and 23	From Equinor 20F report page 282	Total production split on oil and gas in order to easier control revenues (not exact)	Do not match with page 63	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, see 20F page 275			
CONTROL against the Year-End report	Employees in CBC report is consistent with "Our employees" on page 94 and throughout the 20-F. Investments = 11367 or 14924 in the Cash Flow Analysis while the investments in the segment reporting is 15.200. There is a definite need to clarify the regulation with respect to which investments to include in the reporting. PWYP Norway's view is that it is the cash investments in the Cash Flow Statement, i.e. those cash investments demanding a return on investments from the investment year, in this case most likely 14924 (including cash used for business combinations). Revenues Norway deviating 19 and International deviating 20 in other direction, i.e. CBC revenues fairly close to segment report.11 Immaterial Assets Production: Norwegian shelf split exact oil/gas, deviation 0.8 mmboe can be due to deviation in lifting on the fields Cost cannot be reconciled except on the total level for upstream. Underscores the importance of having all the relevant information, including the eliminations in the contextual information to the CBC reporting. Production: Entitlement production is 707 mmboe according to Annual Report page 63 while the company has sold 770 mmboe according to the contextual information to the CBC, but this does not match sold volumes on page 66 – a reconciliation between produced and sold should be done yearly. Taxes: No control options										

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

9. COMMENTS TO EQUINOR’S CONTEXTUAL INFORMATION TO THE CBC REPORTING

In order to provide comments to Equinor’s, or any other company’s CBC reporting and reporting of contextual information, it is necessary to split the comments in two – where does the company fail to provide the information intended by the regulation/stakeholders, and where is the regulation failing to demand the correct information from the company. For this analysis, PWYP Norway is only interested in the minimum information needed, and does not comment on information that goes beyond the minimum information (due to requirements in the regulation). See prior year analyses for this. Sometimes the regulation is ambiguous, and hence it is both of interest to identify authorities failing to provide clear and unambiguous legislation as well as pointing out that the company, in its interpretation of the regulation, has not chosen a reporting that is most in line with the intention of the regulation, which is to present a clear and unambiguous view of the activities in and the performance of its activities in the countries where it has activities.

*Equinor is one of the best companies with respect to reporting of CBC and contextual information to the CBCR. However, that does not mean that they are currently meeting more than the minimum standard in the Norwegian regulation, as the table below will show. Sometimes companies are participating in developing the reporting standards in a field. Equinor was doing this in the transparency area in the earlier years, but the current reporting shows a consolidation of the reporting, and no indication that they are moving in the direction that stakeholders desire the reporting to go. This further demonstrates that the government has to rework their regulation in order for any further progress within public CBC reporting to happen. One of the greatest critiques against Equinor, in addition to the critique in table below, is that even after several years of demonstrating how they should build up the ECBC report on page 282 in the current year annual report (see previous page), they are still failing to expand this overview report, and as a result the transparency of the reporting of contextual information is less than satisfactory.*

AREA ANALYZED	REGULATORY REQUIREMENT	COMPANY REPORTING
1 Has the company reported in line with the regulation?		Yes, with respect to the requirements in the regulation No, with respect to the intention with the regulation.
2 Has the company published the CBC reporting together with the financial statement?	There regulation does not include this requirement, but this is not enough, see 3 below.	Yes, the company has published this information together with the financial statement. This is best practice.
3 Has the company reported the contextual information as a note to the accounts? *)	The regulation fails to require reporting as note to the accounts, but does not prohibit such reporting either. As this is accounting information, it is natural to include it in the notes to the accounts.	No, the company has not interpreted the information as accounting information, and has failed to provide the information in a note to the accounts.
4 Has the company provided at top report as shown on the previous page?	The regulation does not require a top report, but PWYP Norway has requested this for several years.	No, the company has not provided a top report to give a total overview of the most important parameters.
5 Has the company reported all the countries? *)	The regulation is erroneous as it does not require reporting of all countries.	No, although it is possible to report all countries (it is not in contradiction with the regulation), the company has failed to report all countries, i.e. the company has ACTIVELY taken out countries with payments to government lower than NOK 800.000.

AREA ANALYZED	REGULATORY REQUIREMENT	COMPANY REPORTING
6 Has the company reported eliminations separately, so that it is possible to aggregate country numbers and eliminations to match financial statement numbers? *)	The regulation is erroneous as it does not require reporting of eliminations separately.	Yes, in the segment reporting for revenues. No, in the segment reporting for cost, and not the same as for the segment reporting for the CBC reporting.
7 Has the company provided a breakdown of production by type?	The regulation is ambiguous as it does not require a breakdown of production	No, although a breakdown of production is one possible interpretation, and companies are encouraged to do so, Equinor has failed to provide a breakdown by type.
8 Has the company provided the number of employees, specified as either FTE’s or number of employees?	The regulation is ambiguous as it does not provide for how the employees are going to be specified.	Yes, the company has a breakdown of employees by country, but No, the reporting is not together with the rest of the contextual information and No, the company has not specified whether it is an employee count or number of FTE’s (although out of context it seems to be the employee count).
9 Has the company provided investments in line with the cash flow statement?	The regulation is ambiguous as it does not provide guidance regarding which investments to include.	No, and the company do not state how they have arrived at the investments (source).
10 Has the company provided the revenues unaffected by eliminations?	The regulation is ambiguous as it does not require eliminations to be reported separately.	Possibly, but it is not possible to determine whether or not revenues are unaffected by eliminations as the company failed to provide adequate information.
11 Has the company provided the costs (excluding depreciations and amortizations) unaffected by eliminations?	The regulation is ambiguous as it does not require eliminations to be reported separately.	No, it is not possible to determine whether or not costs are unaffected by eliminations, and the company failed to provide adequate information.
12 Has the company provided the payable tax in the profit & loss statement, specified by country?	The regulation is ambiguous as it does not require specifically that it is the payable taxes in the current year that must be reported.	Yes, the company provided both the income tax expense and the income tax paid. This is best practice.
13 Has the company provided the payable taxes at the beginning (1.1) and end (31.12) of the year so that a link is provided from the accounts to the CBC reporting?	The regulation does not require these items, but it does not prohibit them either.	No, this information is still missing, and the Income tax paid does not always tie with the Taxes column in the CBC reporting of payments to governments.

\*) Supplementary information:

Legend information to example notes to the accounts (page 6):

- Header row: red on green = information existing, but in other places; red = information not complete, and in other places; green = information complete and in place (financial statement page 282), but cannot be checked fully against financial statement yet.
- CBCR column: numbers in red = CBCR reported tax cannot be reconciled with the tax paid in other parts of the reporting, making the reporting of taxes less trustworthy.

**Regarding question 3:** The minimum information that PWYP Norway, amongst others, has requested be a part of the reporting of contextual information, is the accounting information, and a natural interpretation would be to include it in a note to the accounts in the group financial statement. Approximately 80% of the organizations and institutions commenting on the last changes to the regulation supported PWYP Norway in the provided comments to the regulation. It is therefore quite clear where the majority of the stakeholders desire the reporting of contextual information to go.

**Regarding question 5:** It is undoubtable that all the stakeholders, including PWYP Norway, demanding CBC reporting and the supplementing contextual information are clear that all countries need to be reported for the regulation to be effective. There is nothing prohibiting Equinor from reporting all countries.

**Regarding question 6:** PWYP Norway has demonstrated in many reports the need for contextual information to be reported before eliminations in order for stakeholders in individual countries to be able to match the contextual information to the CBC reporting in the group with the information in the local companies in each country. Approximately 80% of the organizations and institutions commenting on the last changes to the regulation supported PWYP Norway in the provided comments to the regulation. It is therefore quite clear where the majority of the stakeholders desire the reporting of contextual information to go. The problem with Equinor’s reporting is that the amounts used for revenue eliminations in the CBC report do not match the revenue eliminations used elsewhere, and there are no cost eliminations shown separately. This is not trustworthy reporting.

**Regarding question 7:** There is ample space on page 282 to split the production by type (oil, gas, ngl’s), and there is no excuse anymore for Equinor not to do this after having been requested to do so for several years. It is possible to get close to the split between oil and gas anyway, so why Equinor is not able to split these for the CBC contextual information is a mystery.

**Regarding question 9:** The problem with reporting of investments is that they cannot be reliably tied to any financial statement number. It is the cash investments for the year shown in the Cash Flow Statement that should be reported. Equinor does currently not have reliable reporting of investments in the contextual information to the CBC reporting.

**The conclusion for the 2018-analysis of Equinor’s reporting of contextual information to the CBC reporting is that it is extremely varying:**

- **reporting of taxes in the CBC reporting is best practice in some areas best practice, but falls through completely when they are reporting income taxes paid in the contextual information table – several taxes that are not income taxes are reported in the column Income Taxes Paid, and hence the logic between Income Before Tax and Income Tax Expense becomes absurd.**
- **reporting of investments is a mess, as it cannot be reliably tied to any financial statement number. It should tie to the investments in the Cash Flow Statement.**
- **reporting of eliminations and investments, revenues and cost before eliminations is not trustworthy and needs fixing before next year’s reporting – expanding the table on the Annual Report page 282 to meet the reporting format in this briefing will ensure Equinor meets all requirements. They have almost all the information in place already, but spread over different places, so why not just do it?**
- **Reporting of production needs to be split between oil, gas and NGL to be best practice.**

10. INVERSE ANALYSIS

An inverse analysis is done to find what remains when you take away everything that is known, i.e. an inverse analysis tries to uncover what is unknown. This type of analysis is ideal to illustrate what information can be found using only public data – which is the whole point of demanding public reporting of context information, not only the taxes.

In order to do an inverse analysis, it is necessary to use information that is standardized and normalized. In financial statements, this is typically numbers like EBITDA (Earnings Before Interest, Tax and Depreciation & Amortization). This financial number is standardized across all industries and companies as it has a standard definition used across the world. In addition, it is normalized as extraordinary items and businesses that are up for sale are reported separately.

An alternative number is EBITDAR (Earnings Before Interest, Tax, Depreciation & Amortization and Restructuring & Rent) which also takes into account rentals in the form of leasing. The intention of EBITDAR is to get to the operational cashflow without taking into account how assets are financed.

A second alternative number is EBITDARM (Earnings Before Interest, Tax, Depreciation & Amortization, Restructuring & Rent and Management fees) which also tries to take into account what has been paid in management fees. With respect to EBITDARM there is not necessarily enough information in the financial statements to calculate and it is not necessarily so that this offers a better view of the company than EBITDA or EBITDAR. With respect to EBITDAR it would have been good to avoid restructuring costs as these are costs that should be taken out in order to get to normalized costs, and rents (leasing) is a combination of a financing cost and a “depreciation” or “repayment of a principal”, both of which should not be part of EBITDA. Ideally the best number to use would have been EBITDAR as it most closely resembles a standardized and normalized operational cash flow. However, the information in the financial statements is not adequate to get to the EBITDAR, and PWYP Norway has therefore chosen to do the analysis using the more immediately available EBITDA.

The main criticism against EBITDA is normally that (1) they may be distorted, (2) they are believed to be easy to manipulate, and lastly, (3) that they ignore the impact of real expenses such as fluctuations in working capital. Critics also say that (4) by adding back depreciation, recurring expenses for capital spending are ignored.

To this is to be said that (1) is not so relevant when we are talking about one company and its subsidiaries using the same accounting principles and not comparing different companies (and when comparing different companies it would in most cases be possible to adjust major distortions), (2) is checked by having manipulations monitored by looking at the amount of eliminations that transgress the EBITDA boundary (see eliminations in EBITDA in the table below), (3) is not a critical issue as fluctuations in working capital usually follow the variations in EBITDA so although not taken directly into account, there is an indirect relationship that allows for EBITDA to be trustworthy. With regards to (4) it is necessary to understand that the cash flow available as registered in EBITDA is available to service the equity and the debt. How a company organizes its reinvestments is not a real criticism against EBITDA which only registers available cash flow. A company may use equity funds and dividend less, it may use a combination of equity and debt, or it may fully debt-finance them if the equity is high enough and choose to dividend the full retained earnings in a year. In any case, here we are talking about the use of after-cash cash flow, and that is not an issue for EBITDA.

In order to do a proper inverse analysis using EBITDA it is important to use either (1) EBITDA in the group financial statements plus/minus any eliminations that transgresses EBITDA and reduce by EBITDA of individual companies or (2) EBITDA in the group financial statements and reduce directly with EBITDA. PWYP Norway has chosen to use method (1) as demonstrated by the connection between the first and the second table below.

## 11. FINANCIAL STATEMENT ANALYSIS – EQUINOR – ILLUSTRATION OF INVERSE ANALYSIS

A group financial statement consists of two different levels – the companies that are owned and/or controlled more than 50% which are consolidated fully, and the companies that are owned and/or controlled less than 50% which are consolidated using equity accounted investments. The interesting parts of a multinational company are usually those parts that are owned and/or controlled more than 50%. The companies consolidated using equity accounted investments are usually joint investment companies for joint ventures where joint venture partners channel debt to joint ventures they are in and where usually no one investing group has a majority ownership. From this perspective, we will look at the core consolidated company of Equinor, excluding the effects of the equity accounted investments.

### Group excluding equity accounted investments (less than 50% owned and/or controlled)

Source: financial statement page 162	Revenues	Cost excl D&A	EBITDA	EBITDA %
Upstream Norway	22465	3701	18764	83,5%
Upstream International	12368	4005	8363	67,6%
MMP	75778	73673	2105	2,78%
Other	47	288	-241	
Eliminations	- 31355	- 31458	103	
Total Equinor	79303	50209	29094	36,7%

There is a small deviation in eliminations which amounts to USD 103 million (0,45% of total EBITDA). This is likely, but not confirmed, elimination of financing that is partly inside and partly outside of EBITDA.

EBITDA core operations	USD millions	29.094
Depreciation, amortizations, impairments	USD millions	9.249
EBIT core operations	USD millions	19.845
Equity accounted investments	USD millions	291
EBIT total company (net operating income)	USD millions	20.136

Compared to other companies the equity accounted investments do not constitute more than 1.45% of the total net operating income. This is quite small compared to many companies. The two companies, which constitute the main equity accounted investments, are 20% interest in the oil and gas company Lundin Petroleum AB and a windmill company in Germany.

The selection of the companies below is based on what is defined as core companies by Equinor in their 20F report to the Securities and Exchange Commission (SEC) in the US in connection with their registration on the New York Stock Exchange (NYSE).

Inverse EBITDA analysis (average USD/NOK exchange rate = 8.1247)<sup>2</sup> (8.1 in annual report page 83)

EBITDA core operations	USD mill 29.094	International EBITDA	USD mill 1815
01 Equinor Energy AS	- USD mill 20.829	19 E. Brasil Energia Ltda	
Other core businesses	= USD mill 8.265	20 E. Canada Ltd (group)	
02 E. Angola Block 15 AS	USD mill 708	21 E. Danmark AS (group)	
03 E. Angola Block 17 AS	USD mill 1680	22 E. Deutschland GmbH (group)	
04 E. Angola Block 31 AS	USD mill 304	23 E. Energy do Brasil Ltda	
05 E. Apsheron AS	USD mill 989	24 E. Energy Netherlands BV	
06 E. BTC (Group)	USD mill 39	25 E. Exploration Ireland Ltd	
07 E. Dezassete AS	USD mill 1273	26 E. Holding Netherlands BV	
08 E. Energy Brazil AS	USD mill 0	27 E. Int. Netherlands BV	
09 E. Energy Nigeria AS	USD mill 2	28 E. Natural Gas LLC (US)	
10 E. In Amenas AS	USD mill 351	29 E. New Energy (Group)	
11 E. In Salah AS	USD mill 536	30 E. Nigeria Energy Company Ltd	
12 E. Insurance AS	USD mill 31	31 E. OTS AB	
13 E. Murzuq AS	USD mill 133	32 E. Sincor Netherlands BV	
14 E. Norsk LNG AS	USD mill 182	33 E. UK Ltd (Group)	
15 E. Refining Norway AS	USD mill 87	34 E. US Holding Inc (Group)	
16 E. Tanzania AS	USD mill - 31	35 Statoil Sverige Kharyaga AB)	
17 Statholding AS	USD mill 0	36 South Atlantic Holding BV	
18 Statoil Kharyaga AS	USD mill 182	37 Roncador BV (proportionate)	
Non-core Norway	USD mill -16		
International EBITDA	= USD mill 1815	= Non-core international	

The inverse analysis is done in order to guide readers in the correct direction with respect to following up on Equinor's group structure in more detail and identifying how large EBITDA is outside of Norway and outside the companies Equinor has identified as significant.

**PWYP Norway has not been able to use open source even to follow Equinor's core activities internationally, and this just demonstrates the need for the Extended Country-by-Country reporting which provides the contextual information necessary to ensure that taxes paid can be understood correctly, and that it is possible for investors or other interested constituents to do a minimum of analysis as.**

<sup>2</sup> <https://www.currencys-tats247.com/currencies/nok-usd/2018/>



## 12. 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.

AREA ANALYZED	Aker BP	DNO	Hydro
1 Has the company reported in line with the regulation?	No, see point 11 below and note on Equinor	No, see note on Equinor	No, has not reported cost.
2 Has the company published the CBC reporting together with the financial statement?	Yes. This is best practice.	No	Yes, but reference is weak.
3 Has the company reported the contextual information as a note to the accounts? *)	No	No	No
4 Has the company provided a top report as shown on the previous page?	No, and this is not necessary as they are only in one country.	Yes, but there is still information missing	Yes, but there is still information missing
5 Has the company reported all the countries? *)	Not applicable as they are present in only one country.	Possibly, but the eliminations are not reported separately so it is impossible to determine.	Yes (complete table with eliminations reported separately) and no (do not present an upstream segment that can be checked against).
6 Has the company reported eliminations separately, so that it is possible to aggregate country numbers and eliminations to match financial statement numbers? *)	Not applicable as they are present in only one country.	No	Yes
7 Has the company provided a breakdown of production by type?	No	No	Yes (only one)
8 Has the company provided the number of employees, specified as either FTE's or number of employees?	No	Yes	Yes
9 Has the company provided investments in line with the cash flow statement?	Yes	Possibly, but cannot be determined.	No, this is a major weakness of the reporting
10 Has the company provided the revenues unaffected by eliminations?	Not applicable as they are present in only one country.	No, eliminations not reported separately and revenues cannot be reconciled to financial statement.	Yes, see page 288 of financial statement and they match consolidated P&L. This is best practice.
11 Has the company provided the costs (excluding depreciations and amortizations) unaffected by eliminations?	No, as they are referring to goods and services.	No, eliminations not reported separately and costs cannot be reconciled to financial statement.	No, this is a major weakness of the reporting.
12 Has the company provided the payable tax in the profit & loss statement, specified by country?	No	No	Yes
13 Has the company provided the payable taxes at the beginning (1.1) and end (31.12) of the year so that a link is provided from the accounts to the CBC reporting?	No	No	No

## NOTES

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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.

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ISBN 978-82-93212-94-2

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