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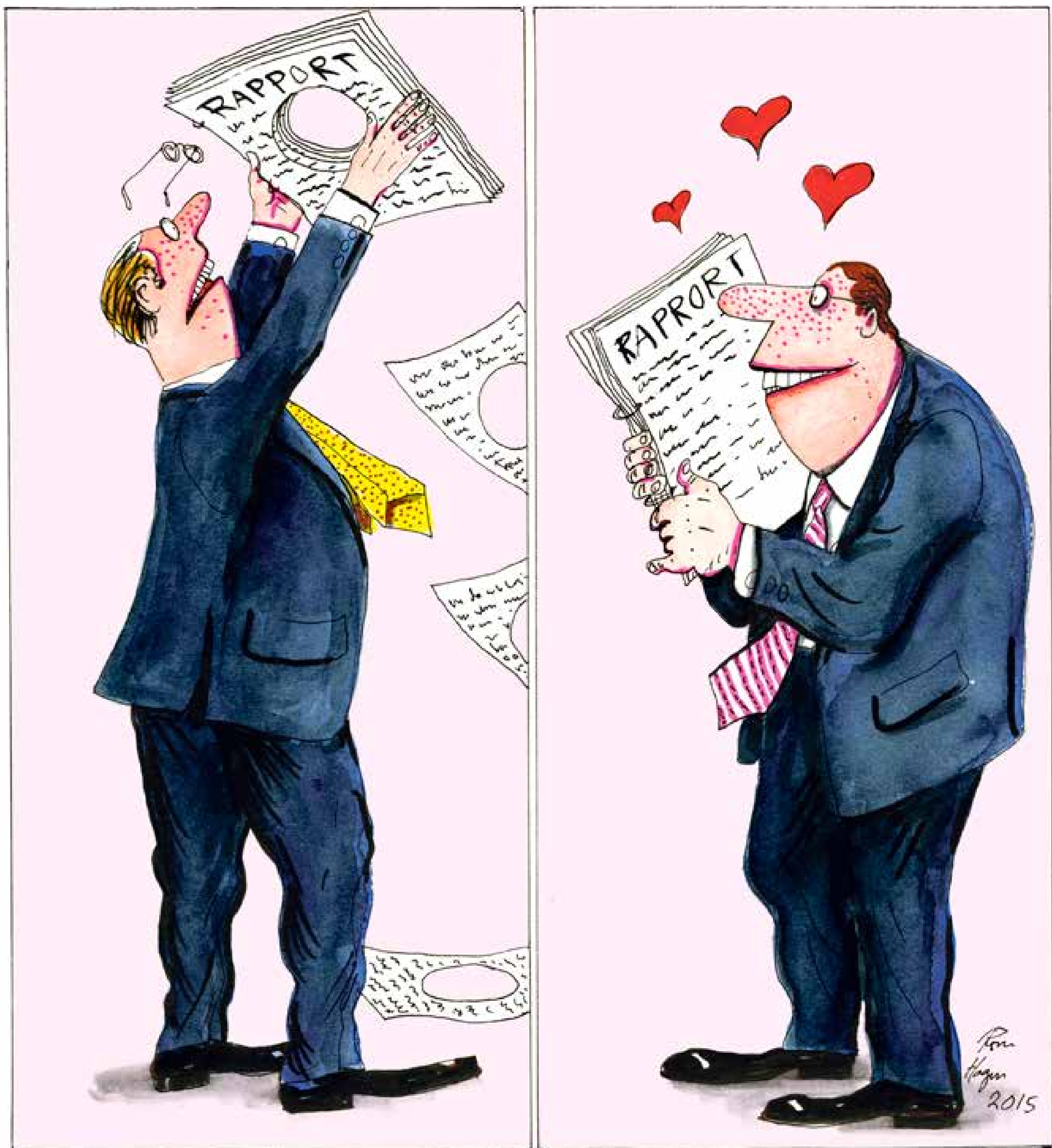
NORWAY

BRIEFING

JUNE 2016

- Statoil reported on the minimum transparency requirement, called a country by country reporting, on a half page in its sustainability report for 2014.
- PWYP Norway shows that Statoil could have easily reported on a meaningful transparency requirement, called an extended country by country reporting, on that half page.
- When companies can show their country-by-country presence on a half page, why will politicians not demand it from them?

What Statoil reported and what Statoil should have reported



Preface

Why did PWYP Norway produce this briefing?

On January 1, 2014 the legislation concerning country-by-country reporting (CBCR) went into effect in Norway.

The law concerning country-by-country reporting for accounting purposes in Norway was the result of a directive from the EU, the Transparency and Accounting Directive, which was put in place April 9, 2013. The Norwegian amendment had the same wording as the EU Directive, and like the EU, the Norwegian amendment included extractive and forestry industries. The EU Directive harmonizes with equivalent legislation adopted in the USA in the Dodd-Frank Wall Street Reform and Consumer Protection Act[1]. The law requires that 1,100 oil and mining companies listed in the stock exchange in the USA, must make public what they pay to governments the world over. This legislation in turn was built on the transparency requirements in the country-by-country reporting that many countries have already adopted. Including Norway, which alone adopted EITI, the first OECD country to do so.

The legislation was intended to take effect in the USA in 2011, but American oil companies organized in the lobby organization American Petroleum Institute (API), which is the USA's largest industry organization for the oil and gas industry and represents more than 600 members, brought proceedings against the Security and Exchange Commission (SEC), the American finance inspection, which was to have written and implemented the regulation. The API did not succeed in their proceedings, but managed to delay the legislation for more than four years.

Norwegian reports

In Norway, most of the interest has been tied to the partly state-owned company Statoil. On March 19, 2015, Statoil presented the world's first report adhering to the requirements in country-by-country reporting. PWYP Norway at that time analyzed the available data from Statoil's country-by-country report to find out whether they were in compliance with the regulations and what information the report revealed.

PWYP Norway's analysis was presented at the briefing "Downstream numbers pollute upstream numbers" which revealed that Statoil had mixed downstream numbers in a report for upstream numbers. PWYP Norway therefore concluded that the report was not transparent and should be corrected to comply with the regulation that requires only upstream numbers to be published[2].

PWYP Norway's analysis also revealed that the requirement in the amendment concerning country-by-country reporting that companies should only report purchases of goods and services and not the full cost, could give the impression that the profit was greater than may be the case for the upstream business. The briefing led to media coverage and Parliament debates. As a result, Statoil changed their reporting the following accounting year in 2016, which is what this briefing seeks to analyze.

To understand what our analysis reveals in respect to what it could have revealed, it is necessary to understand a bit about the international as well as the national context in which the reporting is presented.

The difference between country-by-country reporting ("As is") and extended country-by-country reporting ("Should have been")

Legislation concerning country-by-country reporting is a minimum standard for transparency. When companies must report their tax payments to authorities and authorities have to be transparent concerning what they have received in taxes, it is possible to see whether the numbers match.

The legislation concerning country-by-country reporting (reporting tax payments for the purpose of accounting, as the law in the USA and the EU requires) is necessary to expose potential corruption, but unfortunately it is not sufficient to show potential tax adjustments. Companies can move significant profit out of a country before it is taxed. Because the adjustment occurs before the company pays its taxes, it is not sufficient to merely know how much taxes the company has paid".

1 https://www.whitehouse.gov/economy/middle-class/dodd-frank-wall-street-reform

2 http://www.publishwhatyoupay.no/sites/all/files/PWYP_Policy-Briefing_Downstream_Poll_Digital_0.pdf

Extended country-by-country reporting

For this reason, PWYP Norway developed the idea and the reporting solution for an extended country-by-country reporting (ECBCR). We presented the first discussion notes in 2010 and the first report concerning how the report could be implemented in 2011. Extended country-by-country reporting is a continuation of the minimum standard in country-by-country reporting (CBCR) in the way it is implemented in the USA, EU, and Norway. ECBCR includes the requirements that already exist in the country-by-country reporting, but demands three additional requirements which will make reporting suitable to highlight potential unwanted tax adjustments:

- **Costs:** The amendment in minimal country-by-country reporting requires only that the companies declare "the purchase of goods and services". PWYP Norway demands that Norway introduce extended country-by-country reporting so that companies are required to report their costs, not only for the purchase of goods and services, but for all countries. An extended country-by-country reporting can highlight potential unwanted tax adjustments.

- **Accounting numbers:** The amendment in the minimal country-by-country reporting does not require that country-by-country reporting should use the companies ' already audited numbers broken down by country, or be presented in the notes to the annual financial statement. PWYP Norway demands that Norway implement an extended country-by-country reporting which can highlight potential unwanted tax adjustments by requiring that already audited accounting numbers are the source for the report and that the numbers are shown in the notes to the annual financial statement.

- **All countries:** The amendment in the minimal country-by-country reporting limits itself to companies being required to report the information where there is a physical withdrawal of natural resources and there is also an opening for "other exceptions", without any limits in the amendment. Companies are not required to report from tax havens. PWYP Norway demands that Norway adopt an extended country-by-country reporting that can highlight potential unwanted tax adjustments by requiring reporting from all countries, with no exceptions.

For ten years, PWYP Norway has worked for an extended country-by-country reporting that can highlight unwanted tax adjustments.[3] Norwegian authorities have leaned in the direction of an extended country-by-country reporting. A united Parliament on June 19, 2015 asked the Government to "examine the effect of the amendment for country-by-country reporting as measured against Parliament ' s objective to make unwanted tax adjustments transparent, and to ensure that relevant information tied to CBCR reporting from daughter subsidiaries and support functions in third world countries emerges in the accounting". As of June 2016 the demands were still not implemented, although a hearing on these demands was promised in the fall of 2016. That is why Statoil ' s reporting for 2016 is still the minimal standard for country-by-country reporting.

Why is this briefing important?

1. **It shows how simple it is to set up extended country-by-country** Statoil showed in their first CBCR that the separate CBCR could be condensed to one page when it was reproduced in Statoil ' s sustainability report. Statoil currently has a simple country-by-country report contained in one page in their sustainability report. This analysis shows how easily Statoil can set up an extended country-by-country reporting with notes to the annual financial statement.

2. **It demonstrates that the current regulation concerning country-by-country reporting is insufficient, and how little is needed to attain an extended country-by-country reporting.**

3 http://www.publishwhatyoupay.no/nb/aapenhetsloven/hva-har-skjedd-i-norge

Enjoy reading!

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PWYP Norge

Statoil included its downstream activities in its first reporting, in violation of the Norwegian Country-by-Country Regulations, thus rendering such reporting largely meaningless. In its second reporting, of 18 March 2016, Statoil has limited the data to upstream activities. Nonetheless, the financial accounts and the reported country-by-country figures are not in full conformity with each other, and the fact that purchases of goods and services (which are partly overlapping with investments), rather than costs, are reported for each country makes it difficult to glean any meaning from the figures.

Meaning is only obtained when it is disclosed what a company invests in each country, what are its revenues and costs, how many employees it has and what it pays in taxes. However, Statoil should not shoulder all the blame for its incomplete reporting of costs, as such reporting is based on inadequate regulations.

In the absence of cost details for each country, PWYP Norway has analysed the country-by-country information on the basis of the country-by-country figures in the Payment to Governments Report, the segment information and other information in the Annual Report on Form 20F, as well as the labour force figures in the Sustainability Report.

The 7 countries with the largest investments (Norway, US, Angola, UK, Canada, Azerbaijan and Brazil) account for 93.9% of overall upstream investments. Investments in the US and the UK increased, whilst other investments declined from 2014 to 2015. Investments in Algeria and Nigeria are small relative to the revenues generated in these countries. It would therefore appear that Statoil is in a harvesting phase in the said countries. This is in sharp contrast to the investments in the US, which are its largest investments outside Norway. Consequently, Statoil is expanding its involvement in shale gas and shale oil.

The 7 countries with the largest revenues (Norway, Angola, US, Canada, Algeria, Brazil, Azerbaijan) account for 94.1% of overall upstream revenues. Nigeria would have ranked 4th, with revenues of NOK 9.4 billion, had it not been for depreciation in the net amount of NOK 9.8 billion due to pending litigation.

The 7 countries with the largest production (Norway, US, Angola, Azerbaijan, Algeria, Nigeria, Brazil) account for 97.3% of overall upstream production. The US is the country with the largest production outside Norway, but the revenue figure is held back by low gas revenues. Revenues per barrel are by far the highest in the oil countries Canada and Nigeria, whilst the revenue figure for Nigeria is severely impacted by depreciation due to the pending litigation.

The 7 countries generating the highest revenues as measured in USD per BOE are Nigeria, Canada, UK, Norway, Russia, Angola, Brazil and Algeria. However, this is misleading without disclosure of the costs. The revenues in Canada and the UK are either hedged or otherwise affected by other revenues. Nigeria is affected by pending litigation.

Tax as a percentage of revenues	Tax in % of revenues	Comment
Norway	43.04%	Only in Norway, Angola, Algeria and Nigeria can tax as a percentage of revenues be considered normal. Tax revenues in other countries are affected by low revenues (US), high costs (Canada, Brazil), start-up investments (Ireland) and other mechanisms (Russia).
Angola	42.57%	
Algeria	30.72%	
Nigeria	30.51%	
Russia	24.93%	
Brazil	13.26%	
Ireland	10.00%	
US	9.64%	
Canada	8.83%	

As far as tax in % of total revenues is concerned, there are 3 country segments; countries in which tax is more than 100% of revenues, countries in which tax is more than 20% of revenues and countries in which tax is less than 20% of revenues. Countries in which tax is more than 100% typically have no production, thus making the tax level high because of other taxes than income taxes. Tax in Azerbaijan is 81.6% as a percentage of revenues, but revenues do not include a gain in the amount of NOK 12.3 billion, which is taxed neither in Azerbaijan, nor in Norway. It is uncertain whether the tax level reported for Azerbaijan reflects actual taxation.

Total taxes	Total taxes in NOK million	Comment
Norway	61,371	8 countries receive more than NOK 100 million in taxes. Of the 7 countries other than Norway, the totalitarian states of Angola and Azerbaijan receive 76% of overall tax revenues accruing to the said countries.
Angola	14,120	
Azerbaijan	5,259	
Nigeria	3,151	
Algeria	1,535	
Brazil	578	
Canada	487	
Russia	342	

If we look at overall country-by-country reporting, it may be summarised as follows:

- Investments can be reconciled against the financial accounts (the segment reporting) with an error margin of NOK 33.7 million, but the investments in Norway are NOK 167.9 million higher than in the financial accounts, whilst the investments internationally come to NOK 201.6 million less than in the financial accounts. Consequently, the reporting is NOT in conformity with the financial accounts. The reporting is therefore NOT consistent with the financial statements, and the total elimination is not shown so that one is unable to see if the investments match the financial statements."
- Revenues can be reconciled against the financial accounts (the segment reporting) with an error margin of NOK 746.1 million, but the revenues in Norway are NOK 3,077.7 million higher than in the financial accounts, whilst the investments internationally come to NOK 3,823.8 million less than in the financial accounts. Consequently, the reporting is NOT in conformity with the financial accounts.
- Since purchases of goods and services, rather than costs, are reported, it is not feasible to reconcile cost details against the financial accounts.

According to the financial accounts, the production for 2015 was 324 MMBOE oil, 54 MMBOE LNG and 285 MMBOE gas, i.e. a total of 663 MMBOE, whilst sold volumes were 671 MMBOE. Sales of reserves are not included in this. The difference between the 663 MMBOE reported in the financial accounts and the 719.3 MMBOE reported in the country-by-country specification comes to 56.3 MMBOE. Host government entitlements account for 42.3 MMBOE. Consequently, there is an unreconciled production discrepancy between the country-by-country specification and the financial accounts of at least 14 MMBOE.

Tax in % of total revenues (host government entitlements included in both revenues and tax) was 43.04% for Norway, whilst the same percentage internationally was 29.22%; an average of 37.63%. Of a total of NOK 88.2 billion of tax paid in 2015, NOK 39.6 billion is attributable to 2014, whilst only NOK 24.1 billion of the 2015 tax is deferred to 2016.

What is lacking from the reporting is countries with revenues relating to upstream activities, i.e. which other countries than the production countries have revenues related to Statoil's upstream activities. The country-by-country reporting cannot be considered complete until these countries have been included and a complete picture has been provided of the upstream activities, but Statoil has in 2015 taken a large step in the right direction as far as its reporting is concerned. In this briefing, PWYP Norway shows how simple it is for a company to publish extended country-by-country reporting on one page. It is now up to the authorities to introduce extended country-by-country reporting (ECCR).

What Statoil reported and what Statoil should have reported

Extended CBCR | Minimum standard CBCR

Upstream

Home-country	Investments (mill NOK)	Production vol. (mill boe)	Revenues	Costs by destination*	Purchases by origin*	Number of employees - excl expats	Payable tax 1.1. A	Payable tax P&L B	Payable tax 31.12. C
Norway	55 100	432	182 200	70 500	121 956	19 670	?	?	?
Algeria	-	19,7	-	3 782	28	26	?	?	?
Angola	-	75,3	-	7 355	772	42	?	?	?
Australia	-	-	-	-	409	-	?	?	?
Azerbajan	-	34,7	-	2 934	60	46	?	?	?
Brazil	-	16,3	-	4 066	4 558	280	?	?	?
Canada	-	9,7	-	3 707	2 698	397	?	?	?
Colombia	370	-	-	1	1		?	?	?
Faroe Islands	-	-	-	250	239	7	?	?	?
India	8	-	3	15	15		?	?	?
Indonesia	-	-	-	38	15	22	?	?	?
Ireland	-	-	-	115	108	3	?	?	?
Libya	-	1,3	-	250	4	7	?	?	?
Mozambique	-	-	-	144	144	-	?	?	?
Nigeria	-	17,6	-	968	27	12	?	?	?
Russia	-	3,4	-	442	40	43	?	?	?
UK	-	0,9	-	131	6 835	348	?	?	?
Tanzania	-	-	-	3 095	3 086	30	?	?	?
USA	-	88,1	-	45 812	18 484	913	?	?	?
Venezuela	-	4,3	-	55	30	30	?	?	?
Other	(378)	-	-	31 540	4 173	31	?	?	?
Total upstream	55 100	703,3	182 203	175 200	163 682	21 907	52 800	88 000	39 600

Home-country	Taxes	Host governments entitlements	Bonuses, royalties, fees	Environmental fees	Voluntary community investments	Contractual social contributions	Pay and social benefit
Norway	89 704	-	649	649	123	-	27 892
Algeria	1 568	3 524	-	-	-	-	22
Angola	4 871	18 081	-	-	2	-	41
Australia	-	-	3	-	-	-	-
Azerbajan	1 289	8 778	-	-	-	-	32
Brazil	50	-	1 183	-	3	4	573
Canada	2	-	785	-	9	8	669
Colombia							
Faroe Islands	-	-	19	-	9	-	11
India							
Indonesia	-	-	2	-	9	-	23
Ireland	-	-	-	-	9	-	7
Libya	278	314	-	-	9	-	8
Mozambique	-	-	-	-	9	-	-
Nigeria	2 948	1 873	360	-	1	-	43
Russia	137	729	-	-	2	-	33
UK	87	-	11	-	13	-	658
Tanzania	-	-	-	1	1	-	9
USA	246	-	712	19	19	-	1 836
Venezuela	-	-	-	-	-	-	25
Other	1	-	1	7	7	-	16
Total upstream	101 181	33 299	3 725	676	225	12	31 898

Midstream, downstream and marketing

Home-country	Investments (mill NOK)	Production vol. (mill boe)	Revenues	Costs by destination*	Purchases by origin*	Number of employees - excl expats	Payable tax 1.1. A	Payable tax P&L B	Payable tax 31.12. C
Norway	5 233		316 950	337 351					
Bahamas	87		237	47	81	65			
Belgium	-	-	-	126	80	86			
China	-	-	-3	-	24				
Denmark	185	-	28 430	348	1 329	367			
Germany	57	-	577	62	865	41			
Korea, Rep. of	-	-	9	-	12 636				
Netherlands	29	-	1 958	18	5 821	13			
New Zealand	-	-	-	-	17				
Singapore	-	-	26	48	87	37			
Sweden	-	-	1 868	-	845	-			
Switzerland	270	-	0	-	161				
United Arab	-	-							
Emirates	-	-	0	-	110				
- not individualized	2 153	-	98 354	?					
Eliminations	-		-106 256	?					
Total other	8 014		342 150	338 000	22 056	609			
Statoil ASA Total company	63 114		524 353	513 200	185 738	22 516	52 800	88 000	39 600

Home-country	Taxes	Host governments entitlements	Bonuses, royalties, fees	Environmental fees	Voluntary community investments	Contractual social contributions	Pay and social benefit
Norway							
Bahamas	-				1	-	47
Belgium	-	-	-	-	1	-	126
China		-	-	-			
Denmark	-				-	-	348
Germany	-	-	-	9	9	-	62
Korea, Rep. of		-	-	-			
Netherlands	-				9	-	18
New Zealand		-	-	-			
Singapore	-				-	-	48
Sweden	16	-	-	-	-	-	-
Switzerland		-	-	-			
United Arab							
Emirates							
- not individualized							
Eliminations							
Total other	16	-	-	9	20	-	649
Statoil ASA Total company	101 197	33 299	3 725	685	245	12	32 547

The information in the table is both inadequate and partly incorrect because there is insufficient information provided by Statoil ' s reporting

* Statoil reports the purchase of goods and services and labor costs, but it is impossible to compare income and expenses without knowing the full costs of such

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