030 – NORWEGIAN OIL AND GAS RECOMMENDED GUIDELINES

FOR

DEFINITION OF

JOINT COSTS AND 100% OPERATOR COSTS

Norsk olje&gass

Translated version

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1 Introduction - purpose

The purpose of developing guidelines for the above-mentioned subject is to improve industry practice for the area of 100% own costs and principles that can be recommended as a basis for distribution of costs between the operator's own account and the joint account. Through clear guidelines, the industry can achieve uniform treatment of the same type of costs and avoid lengthy discussion concerning principles for distribution.

This recommendation has been prepared by BP, ConocoPhillips, EON Ruhrgas, ENI, ExxonMobil, Idemitsu, Norske Shell, Petoro, StatoilHydro and TOTAL. These guidelines are an update and expansion of Norwegian Oil and Gas Association’s guidelines published on 1 January 1993, and reflects the changes in the Joint Venture Agreement and the Accounting Agreement effective from 01 January 2007.

2 Description of the problem area

The 100% own cost area represents relatively small amounts compared with the total costs of a joint operation. However, this area has traditionally been the source of the greatest disagreement concerning charges. The industry has much to gain by finding simple rules for charging of costs to the joint account. In the remainder of this recommendation, the costs are categorized as follows:

- ☒ Types of costs that are regarded as being 100% own costs
- ☒ Costs that are regarded as being joint costs
- ☒ Costs that can be both 100% own costs and joint costs, all depending on object and/or specific circumstances.

Even though an attempt has been made to group the issues according to these classifications, there are some practical modifications.

3 Costs that are regarded as being 100% own costs

Article 2 of the Accounting Agreement contains the following definition of "Charges to joint account":

"All costs that are necessary to perform the Joint Operation in a prudent manner shall be charged to the Joint Account. The charges shall be reasonable viewed in relation to the scope and nature of the Joint Operation. The costs shall also be sufficiently documented."

From this follows that costs that are accrued by the operator primarily for follow-up of the operator's owner interests and development of new business opportunities cannot be charged to the Joint Account. These costs include the following:

- Follow-up of subsidiary and branch companies
- Senior management and corporate staff
- Follow-up of partner-operated joint ventures
- Tasks for the general meeting, board of directors and corporate assembly
- Downstream activities
- Foreign activities that do not have direct benefit for the operator's specific tasks on the Norwegian Shelf
- Company profiling and public affairs
- R&D that does not benefit the upstream tasks
- Costs in connection with licensing round applications (individual applications)
- Costs in connection with pre-round/regional studies

3.1 The operator's annual report

Costs for preparation and printing of the operator's annual report for the operator's activities are regarded as being 100 % the operator's own costs. The annual report is prepared for the operator's shareholders. No consideration is given to the fact that the joint operations are mentioned in the report. However, this does not apply to annual reports that the operator's technical departments (the joint operation) must prepare. Assuming that these have a different purpose and distribution than to the operator's shareholders and/or PR purposes for the operator, then these may be regarded as being part of the joint operation. The costs can then be distributed in the same manner as for other costs from the unit.

3.2 The operator's board of directors

The board of directors for the operator's administration is charged with the task of safeguarding the interests of the operator's owners. These costs shall therefore be covered 100% by the operator.

3.3 Oil exhibitions

Costs associated with stands at oil exhibitions have the purpose of promoting the operator's own interests, and the costs must be regarded as being 100% operator's own costs.

3.4 PR advertisements

PR advertisements that only show the operator's name and/or logo are intended to promote the operator's own interests and shall therefore be 100% operator's own costs.

3.5 Sponsor expenses

Financial contributions are largely regarded as being 100% own costs. This also applies to support to universities, educational institutions or other contributions in the form of admission to study programmes, training or other contributions in the form of study reports that do not entail any services in return. Sponsor expenses and other contributions that are approved by the Management Committee can be charged to the relevant license.

3.6 Lots
Lot expenses must be regarded as being 100% operator's own costs until such time as the lot is put into use for the joint operation.

3.7 Tax
Work on tax issues, such as work on its own tax return, own acquisitions/sale of assets and international tax advice are 100% operator's own costs. Tax and fee questions related to the operator's task on the Norwegian Shelf can be charged to the joint operation.

3.8 Corporate planning and business development
The distribution formulas selected must reflect the operator's own business development, purchase and sale of interests in production licenses, shareholdings in other companies and international activity. The organizational location of these tasks will vary from company to company, but it is important that the costs be separated and covered 100% by the operator.

3.9 License applications
License applications for new licenses must be covered 100% by the operator. In connection with new forms of cooperation where an operator applies for a license on behalf of the partnership, or when the operator has received advance approval from the other partners, the costs may be charged to the partnership.

3.10 Regional studies
Regional studies and geological data that the operator develops for the purpose of seeking new licenses or utilization in a different business context, are the operator's own costs.

4 Joint costs

4.1 Office costs, the operator owns the office premises
Annual rent shall consist of depreciation and financing costs that are to cover the operator's costs. These are normally calculated in the following manner:

Depreciation: Linear depreciation - max. 3% per annum
Basis of depreciation: Invested capital or purchase price
Financing: Average NIBOR (1 month) + 1%
Interest: Calculated on depreciated balance

The basis of depreciation, which shall include imputed interest during the construction period, shall be calculated as an average of the year's opening and closing balance.

In the event of rental from an "Associated Company" (the Accounting Agreement), the rent shall be calculated in the same manner as if the operator itself owned the premises.

Loss and gain in connection with sale of premises that the operator or an "associated company" owns, are for the operator's own account.

Rent can be charged from the first day that the building is put into use for the joint operation.

4.2 Office costs, the operator’ pension fund owns the office premises
In the event of rental of office premises owned by the operator's pension fund, the agreed rent shall be used as a basis. The rent shall not exceed the market rent for similar premises. If there is doubt as to the market rent, the assessment of an independent expert shall be used.

4.3 Office costs, third party owns the premises
Contractual rent is used as a basis.

4.4 Vacant office premises, vacating of premises
Premises which could previously be charged and which are vacated completely, may still be charged for a period of up to 6 (six) months after the bulk of the activity/personnel has moved out, but not after the premises are sold or used for a different purpose.

4.5 Vacant office premises, flexibility
If only parts of the building(s) are utilized, the operator can charge pro rata for the number of square meters utilized. In addition, the operator can charge up to 15% extra as a flexibility factor based on the area in use. The flexibility factor cannot result in a figure for total theoretical/chargeable square meters that exceeds the total area of the building(s). Common areas that are accessible to all parties, including third parties, shall be distributed pro rata according to area in use.

4.6 Letting out office premises to others who work for the operator's joint operation (travel agencies, service companies, etc.)
Office premises that are utilized by the operator for rental to contractors/partners who work solely for the operator's joint operation can be charged to the partnership in the usual manner. Any rental income shall be credited to the joint account.

4.7 Letting out office premises to other third party
Income and expenses related to office space that is rented out to another third party is kept separate from the joint account. Common practice is to establish a separate agreement. To the extent that expenses can be allocated directly, this will be done. However, calculations based on key figures are also used.

4.8 Personnel costs

Compensation schemes and welfare measures will vary from operator to operator. These will be included as a part of the operator's general compensation scheme and the costs will be chargeable to the joint operation on an equal footing with other costs. Examples of chargeable costs are events/gifts in connection with anniversaries, Christmas dinner parties and other welfare schemes that are common in the industry.

4.9 Course expenses at management level

Courses and management training are charged in line with other personnel costs.

4.10 NHO dues

The NHO dues are invoiced according to the companies' activity level (wages) and may be distributed as a joint cost.

4.11 Macroeconomic analyses

An evaluation must be made in each case as to whether such analyses serve the joint operation or not. However, PDO-related analyses may be charged to the partnership.

5 Costs that should be divided between 100% and joint account

5.1 Norwegian Oil and Gas' dues

In accordance with the resolution at the general meeting, Norwegian Oil and Gas' total budget will be financed as:

- dues from the contracting companies
- dues from the oil companies and
- payments from the oil companies for joint activities

The dues from the oil companies will be divided into two parts; of which one part will be distributed equally among the oil companies, while the other part will be distributed according to total costs in the license budgets per operator for the budget year.

In line with this, it is proposed that the portion of the dues which is divided equally be treated as 100% own cost, while the part that is distributed according to the license budgets is treated as a joint cost. Other Norwegian Oil and Gas' joint costs are chargeable.
Participation by employees in committees and standing committees related to Norwegian Oil and Gas' projects shall be charged to the joint account.

5.2 External auditors' fees

Costs of external auditors shall be divided between 100% own costs and joint costs according to the external auditor's recommendation, which shall reflect how much of the external auditor's work is related to the joint operation and 100% company operations respectively.

5.3 Accounting and control

The operator is responsible for keeping accounts in Norway for all activities under the Agreement in accordance with statutes and regulations and generally accepted accounting principles in Norway, and for implementing necessary routines for control and documentation of the operator's activities.

When new requirements for generally accepted accounting principles, routines and documentation also comprise requirements for consolidated accounts, reporting to the board, etc., a proportionate deduction shall be made for the consolidation element which shall be treated as own costs by the operator. Other costs shall be allocated among other activities in accordance with fair allocation principles in the industry.

5.4 Public meetings, entertaining guests, dinners, etc.

Such costs must be evaluated in each individual case. Charges must always be documented with a list of participants as well as the purpose.