

The Ministry of Climate, Energy and Building

7th Licensing Round - Denmark

Invitation to apply for licences for exploration for and production of hydrocarbons in an area of the North Sea

Pursuant to paragraph (a) of section 12(1) of Consolidated Act No. 960 of 13 September 2011 on the Use of the Danish Subsoil (the Subsoil Act), applications are hereby invited for licences for the exploration for and production of hydrocarbons (referred to as “licences” below) under sections 5 and 13 of that Act. The deadline for applications is 12.00 p.m. on 20 October 2014. Applications are to be submitted to the Danish Energy Agency (“DEA”), Amaliegade 44, DK-1256 Copenhagen K; see section 11 below.

1. Areas

Applications can be submitted for unlicensed parts of an area in and around the Central Graben in the North Sea, as shown on the attached map, available at the DEA’s website www.ens.dk. Towards the north, west and south, the area is delimited by the continental shelf boundaries with Norway, Great Britain and Germany, and towards the east by 6° 15' eastern longitude.

Moreover, applications may be submitted for licences for deeper-lying layers under licence areas that are delineated in terms of depth.

In addition, applications may be submitted for any areas that may change status from “licensed” to “unlicensed” prior to the application deadline.

Generally, a licence will comprise an area corresponding to the size of 1-2 blocks, but may in exceptional cases comprise a larger contiguous area, e.g. where seismic data coverage is scarce. If an application is submitted for an area that is larger than 1-2 blocks, the reason should be stated in the application.

2. Outline of licence terms

Basically, the licences are awarded with an exploration term of six years, with the right to a 30-year extension for fields that are put into production, see section 13 of the Subsoil Act.

The main principles of the licence terms are unchanged in relation to the 6th Licensing Round. Consequently, the following taxes will be payable for licences granted in the 7th Licensing Round:

- 25 % corporate income tax, which is deductible from the basis for assessing hydrocarbon tax;
- 52 % hydrocarbon tax. In determining the basis for assessing hydrocarbon tax, a 5 % hydrocarbon allowance is granted for investments over 6 years (a total of 30 %).

Through Nordsøfonden, the state will hold a paying interest of 20 % in all licences. Reference is also made to section 3 regarding increased state participation in special cases.

The fees payable for the licences are set out in section 7 below.

The detailed licence terms (the Model Licence) are available at the DEA’s website www.ens.dk (<http://www.ens.dk/en/oil-gas/licences/licensing/rounds>).

3. Selection criteria

Licences will be granted after the applicants have been assessed and selected on the basis of the below-mentioned, previously used criteria, which appear from section 12a(1), see section 5(3), of the Subsoil Act:

- (a) that the applicant has the necessary expertise and financial resources;
- (b) that the quality and scope of the proposed work programme and the attendant documentation demonstrate the applicant's willingness and ability to thoroughly explore for hydrocarbons in the area comprised by the application, and, if accumulations have previously been identified in the area applied for, to quickly clarify the potential for commercial exploitation of such accumulations. The applicants must describe what they consider a complete work programme for the area, and on this basis, they must expressly indicate whether they are offering to perform the complete work programme or which parts of it they intend to carry out; see also section 6(e).

In addition to this, the DEA may attach weight to whether the applicant has demonstrated any lack of efficiency or non-fulfilment regarding obligations under previous licences.

If two or more applications for the same area are considered to be of equal merit on the basis of the above-mentioned selection criteria, the final selection between these applicants will be made on the basis of a supplementary offer made by the applicants regarding the size of the share to be offered to Nordsøfonden over and above the obligatory 20 %; see section 12a(3) of the Subsoil Act. However, Nordsøfonden's total licence share cannot exceed 40 %.

The supplementary offer must indicate the size of the increased share offered to Nordsøfonden if discoveries are made under the licence. If discoveries are made under the licence, Nordsøfonden will thus be entitled, free of charge, to increase its share up to the size of the highest supplementary offer. The transfer of an increased share to Nordsøfonden will take place effective from the date when the field is declared commercial. If the field is not declared commercial in advance, the transfer will become effective from the date a development plan is submitted to the DEA. Nordsøfonden's decision to exercise the right to increase its share must be made no later than the date on which the field is declared commercial or the date on which a development plan for the field is submitted.

As concerns its increased share, Nordsøfonden will not have to contribute to licence costs already defrayed. Thus, Nordsøfonden will have to contribute financially for its total share (the obligatory share of 20 % and the increased share) as from the date when the increased share is transferred.

The relevant applicants will be asked, should the occasion arise, to submit an offer, within a certain time limit, for the percentage up to which Nordsøfonden may increase its licence share. The applicant offering the highest share to Nordsøfonden will receive an offer from the DEA for accepting the licence.

4. Operatorship

Applications must state which company is to undertake the operatorship. If the companies being granted a licence disagree about the appointment of operator, the DEA reserves the right to appoint the operator on the basis of the potential candidates' qualifications; see section 12a(6) of the Subsoil Act.

5. Licensing procedure

Applications submitted by groups of companies as well as individual companies will be considered. Moreover, applications may be submitted for licence shares of less than 80 % (100 % when including state participation). If applications for shares in licences add up to more than 80 %, it will be assessed, based on the applicants' qualifications and the work programmes offered, whether the shares applied for can be adjusted, so that all applicants obtain a licence share. Likewise, should applications be submitted for shares that add up to less than 80 % of a given block, it will be investigated whether the applicants are prepared to increase their shares, so that all the shares of a licence may be allocated in full.

6. Contents of the application

The application must contain the information set out below and must be divided into sections as listed in items (a) – (i):

- (a) For each applicant/participant in a group, the following must be stated: company name and address, name of contact person, as well as each individual participant's percentage share of the licences applied for.
- (b) For each applicant/participant in a group not already holding a licence in Danish territory:
 - I The legal form and place in which the applicant is incorporated (a transcript from the register of companies and a certified translation into Danish or English to be attached), the location of its headquarters, composition of the board of directors and executive board, capital base, including size of share capital, the names and addresses of any shareholders holding at least 10 % of the share capital and the size of their holdings etc.
 - II The company's organization, group structure, relations to associates, hydrocarbon reserves and production, as well as refining and marketing activities.
 - III Financial data about the participant and its parent company, if any, and about the group of which the participant or its parent company forms part. Moreover, annual reports with financial statements for the three previous financial years are to be enclosed for each participant, including for any parent company and/or the group. If the following information does not appear from the financial statements, it should be disclosed separately: annual revenue, annual investments and annual net income after tax, broken down by:
 - i. hydrocarbon activities
 - ii. other activities.
 - IV The participants' previous experience in exploring for and producing hydrocarbons.

Applicants/participants already holding a licence in Danish territory and having already filed information in this connection must forward any new financial information not previously submitted to the DEA.

- (c) In the event that the operator does not already hold an operatorship in Danish territory, documentation must be produced attesting to the qualifications of the party in question, as set out in section 4 above, e.g. manuals or procedures for carrying on operations (quality control and assurance, environmental protection, emergency procedures etc.). For other participants, it should be stated how previous experience from other areas may contribute to the work of the consortium.

Further, an outline should be given of the organization and staff available to the operator in Denmark and outside Denmark for the purpose of carrying on the activities that result from holding a licence for exploration and production in Danish territory.

- (d) A drawing and/or map indicating which block(s)/part block(s) the application concerns, accompanied by a list of coordinates. The coordinates shall be stated in geographical coordinates based on European Datum 1950.
- (e) For each block/part block, a description must be given of the exploration that is considered necessary to fully determine the hydrocarbon potential of the block or combination of blocks applied for, and which works the applicant undertakes to carry out on this basis. The work programme must indicate the proposed exploration activities and the attendant time schedule, see Annex 2 to the Model Licence, and, if accumulations have previously been identified in the area applied for, the work programme must likewise describe the proposed appraisal activities and time schedule for such activities. For each work programme, a detailed account must be given of the prospects in the block, including a description of the play concept(s) and an assessment of the likelihood of making discoveries, with an indication of the values for the individual risk parameters. Geological and geophysical maps as well as interpreted seismic lines must be attached.
- (f) The geological basis for selecting the block or blocks applied for, including an outline of the applicant's data bank.
- (g) For each prospect, an evaluation must be given of the hydrocarbons in place as well as recoverable reserves, with a production profile attached. Further, for each prospect, an account must be given of the proposed development concept and phasing-in schedule as well as the financial assessments on which the application is based, including an indication of the Net Present Value (NPV), Internal Rate of Return (IRR) and Expected Monetary Value (EMV) as well as the economic assumptions used. In this connection, any relevant sensitivity analyses must also be prepared.
- (h) If there are any conditions in a block applied for that may give rise to safety hazards (poisonous gases, abnormal pressure conditions etc.), this must be disclosed. In addition, the applicant must state how such hazards will be handled.
- (i) Applicants not already holding a licence in Danish territory must submit documentation for their objectives and organization for environmental protection purposes, as well as their contingency plan for environmental emergencies and their previous experience in handling emergencies.

7. Fees

The following fees will be charged in connection with processing the application and issuing the licence for exploration and production:

- (a) A fee of DKK 25,000 is to be paid on submission of the application, at the latest; see section 2(1) of Executive Order No. 419 of 2 June 2005 regarding the payment of fees in respect of certain licences pursuant to the Act on the Use of the Danish Subsoil. Payment must be made free of charge to Danske Bank A/S, Holmens Kanal 2-12, DK-1092 Copenhagen K, sort code 0216, account no. 4069065104, IBAN: DK9402164069065104; SWIFT: DABADKKK. It should be stated in the "Note to payee" field that the payment concerns the *7th Licensing Round*.

The fee is non-refundable. The application will be rejected in the absence of documentation for payment of the fee; see section 2(2) of the above-mentioned Executive Order.

- (b) Upon the issuance of the licence, an additional fee of DKK 100,000 is to be paid for the consortium as a whole; see section 7 of the licence.

8. Furnishing of security

Within 30 days of the granting of the licence, each individual participant is to furnish security for the fulfilment of its obligations under licences issued in the licensing round. The amount and nature of such security must be acceptable to the DEA. For a licensee that is a subsidiary or a branch of a subsidiary, a guarantee is generally required from the ultimate parent company.

9. Interaction with environmental, nature protection, raw material and fishing interests

The oil and gas activities must be adapted to other interests. Thus, Danish legislation imposes a number of requirements based on environmental, nature protection and fishing interests as well as considerations relating to the exploitation of other raw materials. As regards fishing and shipping interests, agreements concerning oil and gas activities have been concluded with the associations and authorities affected.

In considering the applications submitted, the interaction with these interests will be clarified.

In addition, an agreement has been concluded between the fisheries' associations and the trade organization Olie Gas Danmark on the payment of compensation to Danish fishermen who suffer any damage to or loss of fishing gear and fishing vessels etc. as a result of offshore oil and gas activities in Danish territory, where the concrete tortfeasor cannot be identified. Licensees must anticipate having to contribute to the financing of this scheme.

The 7th Licensing Round is part of a plan covering, inter alia, offers for licences in the area west of 6°15' E for the purpose of oil and gas exploration and production.

Plans and programmes prepared by central government authorities and determining the framework for future installations or area uses are covered by the Act on Environmental Assessment of Plans and Programmes (Consolidated Act No. 939 of 3 July 2013), and an environmental assessment has therefore been carried out. The aim of the environmental assessment is to identify, describe and assess the probable significant impacts of the plan on the environment.

Among other things, it appears from the environmental report with associated documents, i.e. the summary report and the preliminary nature impact assessment, which initiatives are to be made as a consequence of the environmental assessment process connected with future licensing rounds, including the 7th Licensing Round. The integration of environmental considerations and measures appears from section 3.1 and table 3.1 in the summary report. The environmental conditions that may be laid down in connection with the approval of specific activities, for example preventive measures related to the performance of seismic surveys, appear from the environmental report and the summary report.

The environmental report with associated documents is available at the DEA's website www.ens.dk.

As regards environmental and nature protection issues, reference is also made to Executive Order No. 632 of 11 June 2012 on Environmental Impact Assessment (EIA) concerning international nature protection areas and the protection of certain species in connection with offshore hydrocarbon exploration and production, storage in the subsoil, pipelines etc.

In connection with the approval of a specific project that may be expected to have significant cross-border impacts on the environment in a neighbouring country, the authority in the affected country

that is responsible for environmental impact assessment (EIA) must be consulted (the Espoo Convention). This procedure may be time-consuming, and the DEA therefore recommends reserving sufficient time for the application process related to approval of the project.

10. Supplementary material

The following supplementary material is available at the DEA's website www.ens.dk:

- (a) Model Licence
- (b) Unofficial translation into English of legislation etc. concerning the exploration for and production of hydrocarbons in the Danish subsoil
- (c) Map showing the areas offered for licensing
- (d) Coordinates of the licensed areas shown on the above-mentioned map
- (e) Proposed draft for a joint operating agreement
- (f) Proposed draft for a parent company guarantee
- (g) Statement of 22 January 2014 from the Minister for Climate, Energy and Building of to the Climate, Energy and Building Committee of the Danish Parliament regarding the 7th Licensing Round
- (h) Report from the Climate, Energy and Building Committee of the Danish Parliament
- (i) Environmental assessment
- (j) Summary report
- (k) Preliminary nature impact assessment

11. General

Applications are to be submitted in four (4) copies to the Danish Energy Agency, Amaliegade 44, DK-1256 Copenhagen K. The application must be written in Danish or English. The application may be submitted by email to ens@ens.dk, but must at the same time be submitted in four (4) copies by courier or the like.

Applications will be considered and licences granted on the basis of the information contained in the applications. The DEA reserves the right to request supplementary information for use in considering the applications.

After the DEA has considered the applications received, and before licences are granted, the result of the deliberations will be submitted to the Climate, Energy and Building Committee of the Danish Parliament pursuant to section 6(1) of the Subsoil Act. An outline of the work programmes for the licences will be published in connection with the submission to the Committee.

Pursuant to section 12(3) of the Subsoil Act, the Minister for Climate, Energy and Building may decide not to grant a licence for the exploration for and production of hydrocarbons on the basis of the applications received. Moreover, the Minister may decide at his or her discretion how many licences for exploration and production should be granted on the basis of the applications received.

Licences are expected to be issued within six months after the deadline for applications.

More detailed information is obtainable from The Danish Energy Agency, Amaliegade 44, DK-1256 Copenhagen K, Tel.: +45 33 92 67 00, Email: ens@ens.dk, or is available at the DEA's website www.ens.dk (<http://www.ens.dk/en/oil-gas/licences/licensing/rounds>).

Copenhagen, April 2014

The Danish Energy Agency