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Danish Energy
Agency

The Ministry of Energy, Utilities and Climate

8th Licensing Round, Denmark

Invitation to apply for licences to explore and produce hydrocarbons in an area of the North Sea

Pursuant to section 12(1)(a) of the Act on the use of the Danish Subsoil (the "Subsoil Act"), see consolidated act no. 960 of 13 September 2011 as amended, applications are hereby invited for licences to explore and produce hydrocarbons (the "licence") under sections 5 and 13 of the Act.

The deadline for applications is 1. February 2019 at 12:00 noon. Applications are to be submitted to the Danish Energy Agency ("DEA"), Amaliegade 44, DK-1256 Copenhagen K, see section 11 below.

1. Areas

Applications may be submitted for the unlicensed parts of an area in and around the Central Graben in the North Sea, as shown on the map available on the DEA website at www.ens.dk. The area is delimited towards north, west and south by the continental shelf boundaries with Norway, Great Britain and Germany, and towards east by 6° 15' eastern longitude (European Datum 1950).

Applications may also be submitted for a licence for exploration and production below licence areas delineated downwards by depth, and above licence areas delineated upwards. In addition, applications may also be submitted for any areas that may change status from licensed to unlicensed areas up to 90 days prior to the application deadline.

A licence will normally cover an area equal to the size of 1-2 blocks but may in exceptional cases cover a larger contiguous area, e.g. where data coverage is scarce. If an application is submitted for an area exceeding 1-2 blocks, the reason must be stated in the application. The block division is described in section 2 of the Model Licence, see section 10(a) below.

2. Outline of licence terms

Basically, licences are granted with an exploration term of 6 years, with the right to a 30-year extension for fields that are put into production, see section 13 of the Subsoil Act.

The following taxes will be payable for licences granted in the 8th Licensing Round:

- 25% corporate tax (including additional corporate tax), which is deductible from the basis for assessing hydrocarbon tax;

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- 52% hydrocarbon tax. In determining the basis for assessing hydrocarbon tax, a 5% hydrocarbon allowance is granted on investments for 6 years (a total of 30%).

During the period from 2017 to 2025, the companies may apply an investment window for certain types of investments to be approved by the DEA. Consequently, the hydrocarbon allowance over a 6-year period is raised from 5 to 6.5% a year (a total of 39%). In addition, the rate of reducing balance depreciations in the hydrocarbon tax is raised from 15 to 20%, and the time of deduction for the two deductions is changed from the date on which the investments are put into use to the date of payment. However, the deduction is subject to the condition that oil prices remain below 75 USD/ barrel (2017 figures, rising by 2% p.a.). If the price is higher, the tax deduction must be repaid.

See also the website of the Danish Ministry of Taxation for further information about tax rates. <http://www.skm.dk/skattetal/satser/satser-og-beloebsgraenser/kulbrinteskatteloven>

Through the Nordsøfonden, the state will hold a paying interest of 20% in all licences; see also, section 3 regarding increased state participation in special cases. Note that Nordsøfonden do not contribute to expenses related to purchase of existing information regarding the Danish underground, as it free of charge can access these from the DEA, the Danish Energy Agency and GEUS, the Geological Survey of Denmark and Greenland, see Act no. 527 of 28 May 2014 on Nordsøenheden and Nordsøfonden.

For the fees payable, see section 7 below.

The detailed licence terms (model licence) are available on the DEA website at <http://www.ens.dk/8thRound>

3. Selection criteria

Licences will be granted when the applicants have been assessed and selected on the basis of the following criteria, which are set out in section 12a(1), cf. section 5(3), and section 24a of the Subsoil Act:

- a) that the applicant has the requisite technical and financial capacity
- b) that the quality and scope of the proposed work programme and the accompanying documentation demonstrate the applicant's ability and willingness to thoroughly explore for hydrocarbons in the area covered by the application; and – if deposits have previously been identified in the area – to quickly clarify the potential for commercial exploitation of such deposits. Applicants must describe what they consider to be a complete work programme for the area, and on that basis they must state explicitly whether they are offering to carry out the complete work programme, or which parts of it they may be offering to carry out; see also section 6(e) below.

In addition, the DEA may consider whether the applicant has demonstrated a lack of efficiency or non-fulfilment of obligations under previous licences.

Where two or more applications for the same area are considered to be equally qualified under the selection criteria set out above, the final selection will be made on the basis of the supplementary bids by the applicants about the size of the share to be offered to the Nordsøfonden over and above the mandatory 20 %, see section 12a(3) of the Subsoil Act. The total licence share of the Nordsøfonden may not exceed 40%, however.

The supplementary bid will have to be concerned with the size of the increased share to be offered to the Nordsøfonden if discoveries are made under the licence. If a discovery is made under the licence, the Nordsøfonden will thus be entitled to increase its share – free of charge - up to the size of the highest supplementary bid. The transfer of an increased share to the Nordsøfonden will have to take place with effect 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 when a development plan is submitted to the DEA. A decision by the Nordsøfonden to exercise the right to increase its share must be made no later than the date on which the field is declared commercial, or on which a development plan is submitted for the field.

The Nordsøfonden will not be required to contribute in respect of the increased share to licence costs already paid. Thus, the Nordsøfonden will have to contribute financially in respect of its total share (the mandatory share of 20% plus the increased share) as from the date on which the increased share is transferred.

If applicable, the relevant applicants will be asked to submit bids stating the percentage up to which the Nordsøfonden is to be entitled to increase its licence share within a specified time limit. The applicant submitting the bid providing for the highest percentage share to the Nordsøfonden will receive an offer for the licence by the DEA.

4. Operatorship

Applications from groups must designate a proposed operator. The Danish Energy Agency appoints the operator after consultation with the Danish Working Environment Authority. The appointment is based on the qualifications of the operator, including the capacity to meet the safety and environmental requirements within the Offshore Safety Act and the Act on the Protection of the Marine Environment in relation to offshore activities see sections 12a(6) and 24d (1 and 3) of the Subsoil Act and the Offshore Safety Act 5(2).

Only operators assessed to have the necessary technical and financial capacity are eligible for appointment as operators, see section 24d of the Subsoil Act.

If the companies that have been granted a licence are unable to reach agreement on the operator to be appointed, the DEA will appoint the operator on the basis of the qualifications of the potential candidates.

5. Licensing procedure

Applications from individual companies as well as groups of companies will be considered. Moreover, applications may be submitted for licence shares of less than 80% (100% including state participation). If applications for licence shares add up to more than 80%, it will be assessed – on the basis of the applicants' qualifications and the work programmes offered – whether the applications may be adjusted so that all applicants obtain licence shares. If applications for licence shares adding up to less than 80 % of a given block are submitted, the applicants will be contacted in order to establish whether they are prepared to increase the shares applied for, so that all shares of a licence may be allocated.

6. Content of applications

Applications must state the information set out below and must be divided into sections, each dealing with one of the following items a) - i):

- a) For each applicant/participant in a group, the following information must be stated: company name and address, name of contact person, and in respect of each participant the proposed percentage share of the licence applied for.
- b) For each applicant/participant in a group, the following information is requested:
 - I. The legal form and the place of incorporation of the applicant (a transcript of the companies register and a certified translation into Danish or English to be attached), the location of the applicant's headquarters, the composition of the board of directors and the executive board, capital base, including the amount of its share capital and the names and addresses of shareholders holding 10% or more of the share capital and the amounts of their respective shareholdings, etc.
 - II. The company's organisation, group structure, relations to associated companies, hydrocarbon reserves and production as well as refining and marketing activities.
 - III. Financial data on the participant and its parent company, if applicable, and on the group of which the participant or its parent company forms part. Moreover, annual reports with financial statements for the 3 previous financial years are to be attached, including for an immediate parent company and/or an ultimate parent company of the group. The annual reports should generally be consolidated and audited according to Danish or internationally accepted accounting principles. If an internationally approved credit rating is available for the company or for the group or a group company, such rating should also be submitted.
 - IV. Documentation of the applicant's technical capacity, including the participants' previous experience in exploration and production of hydrocarbons.

- V. For applicants/participants already holding licences in Danish territory that have already filed the relevant information in that connection, any new financial information that has become available since the latest filing with the DEA must be submitted.
- c) If the operator does not already hold an operatorship in Denmark, documentation must be produced attesting to the operator's qualifications as stipulated in section 4, above, e.g. manuals or procedures for conducting its 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 organisation or staff available to the operator in and outside Denmark for the purpose of carrying out the activities arising out of a licence for exploration and production in Denmark.
- d) A drawing and/or map of the block(s)/part block(s) the application concerns. A list of coordinates must be attached. The coordinates must be stated in geographical coordinates based on European Datum 1950.
- e) For each block/part block, a description must be given of the exploration considered necessary for a full determination of the hydrocarbon potential of the block or block combination applied for, and what the applicant undertakes to carry out on that basis. The work programme must specify the proposed exploration activities and the related time schedule, see Annex 2 to the Model Licence, and – if deposits have previously been identified in the area applied for – the proposed assessment activities and the related time schedule must likewise be described. 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 and interpreted seismic lines must be attached.
- f) The geological basis for selecting the block(s) applied for, including an account of the applicant's data bank.
- g) For each prospect, the volume of hydrocarbons in place as well as recoverable hydrocarbon reserves must be assessed, with a production profile attached. In addition, an account must be given for each prospect of the assumed 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) and the economic assumptions used. In this connection, any relevant sensitivity analyses must also be prepared.
- h) If any conditions in a block applied for may give rise to safety hazards (poisonous gases, abnormal pressure conditions, etc.), this must be disclosed. The applicant must also state how such hazards will be handled.

- i) Applicants not already holding licences in Danish territory must submit documentation of their objectives and organisation in the area of environmental protection as well as their contingency plan for environmental emergencies and any previous experience in handling emergency situations.

7. Fees

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

- a) At or before the submission of the application, a fee of DKK 25,000 is payable, see section 2(1) of Executive Order no. 419 af 2 June 2005 on the payment of fees in connection with certain licences pursuant to the Danish Subsoil Act. Payment must be made free of charge to Danske Bank A/S, Holmens Kanal 2-12, DK-1092 Copenhagen K, reg. no. 0216, account no. 4069065104, IBAN: DK9402164069065104; SWIFT: DABADKKK. In the "Note to Payee" it should be stated that the payment concerns the 8th Licensing Round. The fee is non-refundable. The application will be rejected unless documentation is provided to the effect that the fee has been duly paid, see section 2(2) of the above Executive Order.
- b) When the licence is granted, an additional fee of DKK 100,000 is payable for the consortium as a whole, see section 7 of the licence terms.

8. Security

Within 30 days of the granting of the licence, each participant must provide security for the fulfilment of its obligation under licences granted during the licensing round; the nature and amount of such security must be acceptable to the DEA. Where a licensee is a subsidiary or a branch of a subsidiary, a guarantee provided by the ultimate parent company is generally required, see section 24f of the Subsoil Act and section 32 of the Model Licence.

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

The oil and gas activities must be adapted to other interests. Danish legislation stipulates a number of requirements based on environmental, nature protection and fishing considerations as well as the consideration in relation to the exploitation of other raw materials. As far as fishing and shipping interests are concerned, agreements have been entered into with the relevant organisations and authorities concerning oil and gas activities.

When applications for specific projects are considered, the interaction with those interests will be clarified.

The 8th Licensing Round is part of a plan that was prepared and assessed for environmental purposes in accordance with the Act on Environmental Assessment of Plans and Programmes prior to the latest 7th Licensing Round.

The environmental report with associated documents, i.e. the summary report and the preliminary nature impact assessment, sets out the proposed initiatives to be taken in consequence of the environmental assessment procedure in connection with future licensing rounds, including the 8th Licensing Round. The integration of environmental considerations and initiatives appears from section 3.1 and table 3.1 in the summary report. The environmental conditions that may be stipulated in connection with the approval of specific activities, for example preventive measures in connection with the performance of seismic surveys, are set out in the environmental report and the summary report.

The environmental report with associated documents is available from the DEA website at <http://www.ens.dk>

In relation to issues of environmental and nature protection, reference is made to the Act on Environmental Assessment of Plans and Programmes and of specific projects (EIA), see Consolidated Act no. 448 of 10 May 2017, and to Executive Order no. 434 of 2 May 2017 on Environmental Impact Assessment concerning international nature protection areas and protection of certain species in connection with offshore preliminary investigations, 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 relevant 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 in relation to the approval of the project.

10. Supplementary material

The following supplementary material is available from the DEA website at <http://www.ens.dk/8thRound>:

- a) Model licence.
- b) Unofficial translations into English of legislative texts etc. concerning exploration and production of hydrocarbons in the Danish subsoil.
- c) Map showing the areas put up for licensing.
- d) Coordinates of the licensed areas shown on the above map.
- e) Proposed draft joint operating agreement.
- f) Wording of parent-company guarantee.
- g) Statement of 14 May 2018 by the Minister for Energy, Utilities and Climate to the Energy, Utilities and Climate Committee of the Danish Parliament on the 8th Licensing Round.
- h) Report from the Energy, Utilities and Climate Committee of the Danish Parliament.
- i) Environmental assessment and associated summary report and preliminary nature impact assessment.

For further information on rules and regulations, executive orders and guidelines, including guidelines on security and insurance and on technical capacity concerning the use and exploitation of Danish subsoil, see the DEA website at <http://www.ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines>

11. General

Applications are to be submitted in four (4) hardcopies and on a memory stick (USB) in a .pdf version to the Danish Energy Agency (DEA), Amaliegade 44, DK-1256 Copenhagen K. Applications must be in Danish or English.

The Danish Energy Agency expects to relocate in the beginning of 2019. Applicants are encouraged to keep updated on the delivery address on the DEA homepage or an inquiry by telephone.

Applications will be considered and licences granted on the basis of the information set out in the applications. The DEA reserves the right to request any supplementary information required for the purpose of considering applications.

When the DEA has made their decision, and before a licence is granted, the result will be presented to the Energy, Utilities and Climate Committee of the Danish Parliament in pursuance of section 6(1) of the Subsoil Act. An outline of the work programmes for the licences will be published in connection with the presentation to the Committee.

Pursuant to section 12(3) of the Subsoil Act, the Minister for Energy, Utilities and Climate may decide not to grant a licence for the exploration and production of hydrocarbons on the basis of the applications received; also, the Minister is free to determine how many licences for the exploration and production of hydrocarbons should be granted on the basis of the applications received.

Licences are expected to be granted within 6 months after the deadline for submitting applications.

For further information, please contact The Danish Energy Agency (DEA), Amaliegade 44, 1256 Copenhagen K, on tel (+45) 33 92 67 00, by email ens@ens.dk, or on the DEA website at <http://www.ens.dk> or <http://www.ens.dk/8thRound>

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The Danish Energy Agency