

Office/departmentCentre for Energy
Resources**Date**

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Accounting instructions for activities under exploration and production licences

All licensees and individual companies must report all financial information required for the supervision and monitoring of activities covered by the Danish Subsoil Act, see section 26(1) of the Act on the Use of the Danish Subsoil no 960 of 13 September 2011 as amended (the Subsoil Act).

These accounting instructions describe the reports on financial information to be submitted to the Danish Energy Agency.

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NOTE: This translation is provided for convenience only, and in the event of any conflict between the wording of the Danish and English versions, the wording of the Danish version shall prevail in all respects.

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1 Reports

Operators under licences and individual companies are required to submit the following information to the Danish Energy Agency on an annual basis:

- On or before the 1 February the **operator** under a licence or for a field must submit the final, approved budget for the current year and the provisional budget for the 3 following years to the Danish Energy Authority. According to the **budget form** the following data must be disclosed:
 - Expenses for exploration and appraisal activities
 - Expenses for development activities
 - Expenses for production activities – exclusive of transport
 - Expenses for transport
 - Expenses for decommissioning activities

Reports are divided into firm and optional activities, the latter reflecting activities implemented by the licensee provided certain conditions have been fulfilled. The form may be accessed by clicking this link: <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (form 1.3.h, Joint operation budget accounting form)

Please note that the budget is to comprise all activities for the individual licences or the individual fields that are expected to be implemented during the specific years, and not items such as provisions and/or depreciation. The budget is to be reported in the format and based on the definitions set out in Schedule 4, which may be accessed by clicking this link: <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (Form 1.3.h)

- On or before the 1 March the **operator** under the licence must submit to the Danish Energy Agency the insurance declaration whereby the operator under a licence declares on behalf of all participants in the licence that the participants carry the insurance coverage required under the licence. The declaration template is set out in Schedule 5 and may be retrieved from the Danish Energy Agency website at <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (Form 1.3.g)

In the declaration, the operator under a licence must list the licences covered by the insurance. Also, the operator must state the amount of deductible undertaken by the companies. The insurance requirements are specified in the guidelines on security and insurances, which may be accessed by clicking this link: <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (Form 1.3.j)

- On or before the 1 March the **operator** under the licence must submit to the Danish Energy Agency the reporting from concerning maximum non-controlled release of oil and condensate. The form is to be found in Schedule 6 and may be retrieved from the Danish Energy Agency website at: <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (Form 1.3. g)
- On or before the 1 June a consolidated annual report must be submitted to the Danish Energy Agency for the past year for each **company** in a licence and the consolidated annual report for the **company providing the parent company guarantee**, and if the company providing the guarantee is not the **ultimate parent company**, the consolidated annual report for the ultimate parent company must also be submitted. If the financial year differs from the calendar year, so that the annual report is not available by 1 June, the Danish Energy Agency may dispense with the above deadline.

If the annual reports can be accessed on the Danish Business Authority website, the companies may choose to refer the Danish Energy Agency to the part of the Danish Business Authority website where the annual reports can be accessed.

The annual reports must be drawn up in accordance with generally accepted accounting principles and must be audited by a state-authorized public accountant. Reports must be submitted in Danish or English. The Danish Energy Agency may accept annual reports in other languages provided they are accompanied by a translation by a certified translator.

As a general rule, annual reports must be presented in accordance with the provisions of the Danish Financial Statements Act, IFRS or any other generally accepted accounting principles approved by the Danish Energy Agency. Generally, annual reports should always be submitted to the Danish Energy Agency. In exceptional cases, however, the Danish Energy Agency may upon request dispense with the requirement for audited annual reports etc.

- If an internationally approved credit rating is available for **the company** or for the group of companies or an affiliated company, it must be submitted to the Danish Energy Agency on or before the 1 June.
- On or before the 1 June the **operator** must submit financial information in relation to section 6 in the guidelines for decommissioning plans for offshore oil and gas installations to the Danish Energy Agency. Reports are relevant to licences comprising installations.

- On or before the 15 August the **operator** under a licence or for a field must report the actual joint expenses incurred (Joint account) – including sole-risk activities - for the past calendar year together with the annual statement of expenses. Sole-risk activities must be reported separately, stating participants and their specific shares. If an auditor's opinion concerning the statement of expenses is available, it must be enclosed. The information in the reporting form is categorised in the same way as in the budget reports.

If the licence includes joint income, such income must be set out in the annual statement of joint expenses. Income must be deducted from expenses in the relevant categories. Please note that only the actual expenses paid under the individual licences, and not provisions for depreciation etc., must be reported. The actual expenses must be reported in the format and on the basis of the definitions set out in the reporting forms.

The statements of expenses may be audited. The operator submits the annual statement of expenses to the Danish Energy Agency with the form for reporting joint expenses.

The form for reporting joint expenses may be accessed by clicking this link: <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (item 1.3.h)

- On or before the 15 August the **companies** must report their actual own actual expenses incurred for the past calendar year which are not covered under Joint Account, broken down by exploration, development, production, decommissioning and transport. The terms and conditions applying to the joint expenses also apply to own expenses.

The form for reporting own expenses may be accessed by clicking this link: <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines> (item 1.3.h)

The information must be submitted electronically to the Danish Energy Agency's electronic mailbox at the following email address: findata@ens.dk

2 Book-keeping requirements

Books must be kept according to the guidelines of the Danish Bookkeeping Act, see consolidated act no 648 of 15 June 2006 as amended.

Schedule 1: Definitions

- Licence means a right within a specified area to carry out preliminary investigations, exploration and production of raw materials, to establish and carry out operations on pipeline installations, to explore and use the subsoil for storage or other non-production purposes, or to carry out scientific investigations subject to the provisions of the Subsoil Act.
- Licensee means the participant(s) licensed under the provisions of the Subsoil Act to carry out preliminary investigations, exploration and production of raw materials, to establish and carry out operations on pipeline installations, to explore and use the subsoil for storage or other non-production purposes, or to carry out scientific investigations. A licensee may consist of one or more natural or legal persons jointly, including licence holders and contributing participants.
- A company means one of the participants in a licence.
- Operator means the company carrying out activities on behalf of the licensee according to a licence issued under the Subsoil Act or carrying out sole risk activities on behalf of one or more of the participants in a licence.
- Accounting procedure is an appendix to the companies' joint operating agreement (JOA) laying down the guidelines for the operator's accounting policy concerning registration of joint expenses, costs of sole-risk activities, and preparation of budgets.
- An internationally accepted credit rating is a rating prepared by either Moody's, Fitch or Standard & Poor's or any other internationally accepted credit rating agency.
- Annual report means the company's or the consolidated annual report for a participant in the licence, the annual report for the company providing the parent company guarantee, and the annual report for the ultimate parent company.
- An annual statement of expenses means an annual statement of the expenses for the year and the accumulated expenses for the licence, prepared by the operator for the individual licences in accordance with the Accounting procedure, which may also include other information.

Schedule 2: Form for reporting actual joint expenses incurred under the licence

Operator's disclosure form for exploration and appraisal activities for 2017	
This form concerns licence no.:	_____ and operator (name): _____
Please indicate the total expenses in the Joint Account for exploration and appraisal activities in relevant currency in thousands ('000)	
Total expenses for exploration and appraisal	Currency
Guidelines	
The following are included as exploration and appraisal activities:	
a) Geology & geophysics (general & interpretation, seismic acquisition/processing, and other expenses in this category)	
b) Drilling (site survey/location, preparation, mobilization/demobilization, drilling rig hire, materials & supplies, rentals & services, and other expenses in this category)	
c) Indirect costs (administration & overheads, concession fees, insurance, interest, currency gains/losses, and other expenses in this category)	
To be submitted to the Danish Energy Authority by 15 August in the year following the year mentioned above.	
<p> Exploration / Development / Production / Transportation / Decommissioning </p>	

Schedule 3: Form for reporting actual own expenses incurred under the licence

Co-licensee disclosure form for exploration and appraisal activities for 2017

This form concerns licence no.: _____ for co-licensee (name): _____

Please indicate the co-licensee's own total expenses for exploration and appraisal activities in relevant currency in thousands ('000) not covered by the contribution to the Joint Accounts for the above year:

Total expenses for exploration and appraisal	Currency
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Guidelines
The following are included as exploration and appraisal activities:

- a) **Geology & geophysics** (general & interpretation, seismic acquisition/processing, and other expenses in this category)
- b) **Drilling** (site survey/location, preparation, mobilization/demobilization, drilling rig hire, materials & supplies, rentals & services, and other expenses in this category)
- c) **Indirect costs** (administration & overheads, concession fees, insurance, interest, currency gains/losses, and other expenses in this category)

To be submitted to the Danish Energy Authority by 15 August in the year following the year mentioned above.

► | Exploration / Development / Production / Transportation / Decommissioning

Schedule 4: Form for reporting budgeted expenses

Joint operating accounting of budget figures for <u>2018 through 2022</u>																																					
This form concerns licence no. operated by 																																					
Exploration and appraisal activities																																					
Please indicate the firm and/or optional budgets for joint total expenses in exploration and appraisal activities (in DKK '000):																																					
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The following are included as exploration and appraisal activities:

- a) **Geology & geophysics** (general & interpretation, seismic acquisition/processing, and other expenses in this category)
- b) **Drilling** (site survey/location, preparation, mobilization/demobilization, drilling rig hire, materials & supplies, rentals & services, and other expenses in this category)
- c) **Indirect costs** (administration & overheads, concession fees, insurance, interest, currency gains/losses, and other expenses in this category)

The following are included as development activities:

- a) **Project planning** (engineering, surveys, and other expenses in this category)
- b) **Construction** (management, certification, engineering, fabrication structure, fabrication topside/wellhead, fabrication topside/process, fabrication topside/accommodation, installation, hook-up & commissioning, pre-production costs, pipelines, and other expenses in this category)
- c) **Drilling** (site survey/location, preparation, mobilization/demobilization, drilling rig hire, materials & supplies, rentals & services, and other expenses in this category)
- d) **Indirect costs** (administration & overheads, insurance, interest, currency gains/losses, and other expenses in this category)

The following are included as production activities:

- a) **Operating expenses** (employee costs, materials, supplies & equipment, services & rentals, and other expenses in this category)
- b) **Repairs & maintenance** (employee costs, construction & operating materials, construction & operating services, and other expenses in this category)
- c) **Additions & improvements** (design & supervision, materials & supplies, services, and other expenses in this category)
- d) **Indirect costs** (administration & overheads, insurance, interest, currency gains/losses, and other expenses in this category)

The following are included as transportation activities:

- a) **Operating expenses** (employee costs, services & rentals, haulage & transport services, and other expenses in this category)
- b) **Transportation of oil & gas** (Tariffs for transport to Fredericia port (oil) and to Nybro/Den Helder(gas) and costs of shipment to the first port (oil))
- c) **Indirect costs** (administration & overheads, insurance, interest, currency gains/losses, and other expenses in this category)

The following are included as decommissioning activities:

- a) **Project planning** (engineering analysis, operational planning, contracting, and other expenses in this category)
- b) **Well plugging and abandonment** (data collection, planning, removal of downhole equipment, and other expenses in this category)
- c) **Platform removal** (conductor removal, mobilisation and demobilisation of derrick barges, platform removal, and other expenses in this category)
- d) **Infrastructure decommissioning** (pipeline and power cable decommissioning, materials disposal, and other expenses in this category)
- e) **Indirect costs** (administration & overheads, insurance, interest, currency gains/losses, and other expenses in this category)

This form should be submitted to the Danish Energy Agency by 15th January 2018.

All accounting of budgets and forecasts should follow the rules stipulated in Article II of the Joint Account Procedure, which can be found under Appendix A in the Joint Operating Agreement.

Schedule 5: Insurance declaration form

Operator's Declaration of Insurance

Concerning Licence:X/XX Covering the year:201X

Indicate licence phase (i.e. exploration, development, production, decommissioning):.....

Indicate field type (i.e. oil or gas/condensate):.....

The operator hereby declares to have received insurance certificates or declarations of self-insurance from all co-licensees (including the operator's own certificate or declaration) for the year mentioned above. The operator also declares that the insurances are effected by insurance companies which satisfy the solvency and/or rating requirements of the Danish Energy Agency. Furthermore, the operator declares that the insurance programmes for all co-licensees fulfil the following conditions:

Operator's additional expenses, OEE

Offshore activities

Control of Well (COW) - including seepage and pollution

Coverage: Normal coverage in the Danish sector is a minimum of DKK 1,000,000,000 (100% interest) per occurrence - including underground blow out. If three times all cost relating to drilling and testing any well in the covered year exceeds DKK 1,000,000,000 the coverage should as a minimum be increased to this amount for that well. Cost relating to drilling and testing this well shall be as stated in the budget for the licence, approved in accordance with the JOA.

Onshore Activities

Control of Well (COW) - including seepage and pollution

Coverage: Normal coverage in Denmark is a minimum of DKK 300,000,000 (100% interest) per occurrence - including underground blow out. If three times all cost relating to drilling and testing any well in the covered year exceeds DKK 300,000,000 the coverage should as a minimum be increased to this amount for that well. Cost relating to drilling and testing the most expensive well shall be as stated in the budget for the licence, approved in accordance with the JOA.

Operator / co-licensee	Retention level (in USD) for OEE

Third Party Liability (TPL) regarding exploration (seismic and drilling), development and production and decommissioning offshore and onshore

Offshore activities

Coverage: Minimum limit of DKK 1,000,000,000 (100 % interest) per occurrence for oil fields. Minimum limit for condensate/dry gas DKK 185,000,000 (100% interest per occurrence).

Onshore and Geothermal:

Minimum limit of DKK185,000,000 (100% interest per occurrence).

Operator / co-licensee	Retention level (in USD) for TPL

Removal of Wreck regarding exploration (with drilling), development and production and decommissioning offshore

Coverage: Minimum 25 % of asset replacement cost (like for like basis).

Operator / co-licensee	Retention level (in USD) for Removal of Wreck

Other activities than drilling

By signing this form the operator declares that the companies carrying out other activities than drilling carry insurance coverage which is normal for the specific activity performed under the Knock-for-Knock principle.

Date, stamp and signature

To be submitted to the Danish Energy Agency by 1 March in the covered year.

Schedule 6: Operator’s declaration regarding maximum non-controlled release of oil and condensate

Operator's Declaration regarding maximum release (bopd) from a well in case of non-controlled incident

Concerning Licence:X/XX

Covering year:201X

The operator hereby declares that the licence is either in a drilling, construction, operational or decommissioning phase in which one or more wells from which there either is or is expected to be a flow of hydrocarbons – either by free flow or by means of water/gas injection.

The operator hereby declares the (expected) type of hydrocarbon (black oil, volatile oil or condensate) and the maximum average release rate (bopd) in case of a 90-day non-controlled release. The operator is to consider if a non-controlled release from a well implies a significant risk of losing control and release from several wells. In that case the table below should add the release (bopd) from these wells.

	API(*)	Number of wells affected	Release rate (bopd)
"Black oils"	< 42		
"Volatile oils"	$42 \leq \text{value} \leq 55$		
Condensate	> 45		

Source: Society of Petroleum Engineers (SPE)

(*) The starting point for the assessment is if the exploration/production of the relevant resource concerns a gas or oil field. In case of a gas field there will usually also be a liquid production (condensate).

Date, stamp and signature

To be submitted to the Danish Energy Agency by 1 March in the covered year.