

M E M O

CONFIDENTIAL

Statement from the Minister for Transport and Energy to the Energy Policy Committee pursuant to section 12(2) of the Danish Subsoil Act.

This statement is made pursuant to section 12(2) of the Danish Subsoil Act, which provides that prior to inviting applications for oil and gas exploration and production licences, the Minister for Transport and Energy is to submit a statement to the Energy Policy Committee setting out the areas and blocks to be offered for licensing, as well as the general terms applicable to the licences to be awarded.

Background and status

Since 1981, five licensing rounds have been held in Denmark. The first three licensing rounds comprised all unlicensed areas in Danish territory.

The two most recent licensing rounds, the 4th round in 1995 and the 5th in 1998, comprised the Central Graben with adjoining areas only. Since 1997, the so-called Open Door procedure has comprised the remaining part of the Danish area east of 6°15' eastern longitude, i.e. the eastern part of the North Sea, inner Danish waters and onshore areas.

After the 5th Licensing Round, two licences for neighbouring blocks were issued in 1999 and 2000. Since then, no licences have been granted for exploration and production of hydrocarbons in the Central Graben with adjoining areas.

A total of four hydrocarbon discoveries have resulted from exploration activity under the licences granted in the 5th Licensing Round. Two discoveries have already been developed (Cecilie and Connie), while the remaining two discoveries (Hejre and Svane) are still undergoing appraisal.

In the Open Door area, where the oil companies can continually apply for and be granted licences, exploration activity has so far yielded no results in terms of hydrocarbon discoveries. Oil companies have shown limited interest in the eastern part of Denmark, but the area is still considered to hold exploration potential.

Framework for the 6th Licensing Round

The work programmes drawn up under the licences awarded in the 5th Licensing Round involved stable exploration activity, which has virtually ceased now that the obligatory parts of the work programmes have been fulfilled for nearly all licences. The total investments for carrying out exploration in the 5th Licensing Round are estimated at DKK 2.3 billion to date.

In order to uphold the continuity of exploration activity in the years to come and thus preserve and further develop the knowledge and expertise the oil companies have accumulated concerning the Danish subsoil, it will be appropriate to open a 6th Licensing Round for the Central Graben with adjoining areas soon.

To this must be added that the experience of recent years shows that most potential discoveries will consist of small fields that are assumed to be profitable only if exploited in conjunction with the existing processing and pipeline facilities. Against this background, it is expedient to hold a 6th Licensing Round now, and thus allow the possibility of using the existing infrastructure in connection with new discoveries, to the extent considered desirable.

The objective of holding a 6th Licensing Round at present is also to contribute to fulfilling the main objective set for future oil and gas exploration, according to which exploration is to be organized with a view to finding as much as possible of the oil and gas in place in the Danish subsoil. The intention is to prolong the period for which Denmark will be wholly or partly self-sufficient in oil and natural gas, at the same time ensuring that the existing installations and pipelines can be used for an extended period.

As the Central Graben with adjoining areas is still likely to hold out attractive potential, competition for new licences is expected in certain parts of the area offered for licensing. Consequently, it is considered appropriate to uphold the licensing round procedure for this area.

Area offered for licensing

The area offered for licensing in the 4th and 5th Licensing Rounds was delimited on the basis of an assessment of the potential extension of hydrocarbons in the Central Graben. As this assessment remains unchanged, the same area will be offered for licensing in the 6th Licensing Round. This means that applications are invited for all unlicensed areas in the Central Graben with adjoining areas. The Central Graben with adjoining areas comprises the territory west of 6° 15' eastern longitude; see Appendix 1 (map). The unlicensed area covers 14,496 km² out of the total area of 19,744 km², corresponding to 73 %. The comparable percentages were 79 % and 64 % in the 4th and 5th Licensing Rounds.

Since the 1st Licensing Round in 1984, the licences have included a standard term stipulating that an accumulation must be delineated in terms of area as well as depth when a licence is extended with a view to production. Once the exploration term of such a licence has expired, the exclusive licence will thus cover the accumulation to the specified depth only. The licences currently delineated in terms of depth are licence 7/86 for the Lulita accumulation, licence 1/90 for the Lulita accumulation, licence 7/86 for the Amalie accumulation and licence 7/89 for the South Arne accumulation. Therefore, in addition to applying for the open, unlicensed areas, oil companies can also apply for exploration licences covering the deeper-lying layers under the accumulations mentioned.

Terms applicable to the 6th Licensing Round

Compared to the other North Sea countries, the Danish area is overall considered to be as geologically competitive as it was in the 5th Licensing Round. The central financial terms from the 5th Licensing Round will also be applied in the 6th Licensing Round.

The licences awarded in the 6th Licensing Round will be subject to the tax rules applicable since 1 January 2004, which correspond to the rules regulating A. P. Møller's extended Sole Concession from 1962, excepting the provisions of the Sole Concession regarding a profit share and state participation. Consequently, the following taxes will be payable for licences granted in the 6th Licensing Round:

- 30 % corporate income tax, which is deductible from the basis for calculating hydrocarbon tax;
- 52 % hydrocarbon tax; a 5 % hydrocarbon allowance is deductible for 6 years;
- 5 % oil pipeline tariff until 2012, from which year the tariff will be abolished. The oil pipeline tariff can be offset against the hydrocarbon tax payable, and cannot be deducted from the basis for calculating corporate income tax and hydrocarbon tax.

In addition, as in the 5th Licensing Round, it is a condition that the Danish state is granted a 20 % share of all licences ('state participation'). All expenses attributable to this share will be paid by the state.

The licence terms regarding state participation will, however, be revised consequent to the planned, partial privatization of the DONG Group. In future, a new state-owned entity will administer the state participation in new licences granted in licensing rounds and the Open Door procedure; see section 8(1) of the Subsoil Act. This new entity will be moderate in size and make use of existing expertise as well as the data and evaluations already being produced under the auspices of the Danish state. The new entity cannot be awarded operatorships or act on its own initiative to acquire additional shares in excess of 20 %. In the near future, the Government will present a Bill on establishing the new entity to handle future state participation.

Compared to the most recent licensing rounds, the changes made to the Model Licence will only consist of the minor technical revisions required to adapt it to the 6th Licensing Round. The Model Licence, attached as Appendix 2, is the standard licence that will be used in the 6th Licensing Round.

Payment

A DKK 25,000 fee is payable per application submitted, regardless of whether a licence is awarded. As in the most recent licensing rounds, an additional fee of DKK 100,000 is payable upon the issuance of a licence.

Environment

The procedures established for involving the relevant authorities/organizations in protecting environmental, preservation, raw material and fishing interests will be maintained in connection with exploration and production of oil and gas, with a view to minimizing any risk to and interference with the environment. Moreover, before licences are granted for oil and gas production projects assumed to materially affect the environment, an assessment will be made in accordance with the provisions of the Subsoil Act regarding environmental impact assessments (EIA procedure).

Licensing procedure

The licensing procedure used in the 4th and 5th Licensing Rounds will also apply to the 6th Licensing Round. This procedure is flexible and means that groups of companies as well as individual companies may submit applications for licences. 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. The aim of this licensing procedure is to help increase the number of applicants, thus boosting investments in exploration in the licensing round.

As in previous rounds, the operatorship must be applied for separately. Applications from groups of companies must state which company is to undertake the operatorship. Likewise, individual companies submitting applications should indicate any wishes with regard to operatorship. If the companies applying for a licence disagree about the appointment of operator, the Minister for Transport and Energy may appoint the operator on the basis of the applicants' qualifications; see section 12a(6) of the Subsoil Act.

Selection criteria and choosing between several applicants

The applicants will be assessed and selected according to the above-mentioned, previously used criteria, which appear from section 12a(1), see section 5(3), of the Subsoil Act, and which concern the applicant's technical

competence and financial capability, as well as the quality and scope of the work programme offered. The scope and quality of the work programme, assessed on the basis of exploratory requirements in the area applied for, will be an important criterion, and the applicants will be asked to describe what they consider a complete work programme for the area, and which works they intend to carry out on this basis.

When considering applications for licences, the Minister for Transport and Energy will also attach weight to the ways in which applicants have conducted their activities under corresponding licences; see section 12a(4) of the Subsoil Act.

Moreover, the Minister for Transport and Energy may refrain from granting licences on the basis of the applications received in connection with the licensing round; see section 12(3) of the Subsoil Act.

If two or more applicants/groups of applicants for the same area are considered to be equally qualified on the basis of the above-mentioned selection criteria, the final choice among these applicants will pivot on any supplementary offer for payment of a cash bid sum; see section 12a(3) of the Subsoil Act. The relevant applicants will in that case be asked to submit such an offer within a specified time limit; see section 12a(2) of the Subsoil Act.

Size of licence area

The intention is to carry on the practice used to date. This means that the individual licences will cover an area limited to 1-2 blocks, except in very special circumstances.

Time schedule

Once this statement has been considered by the Energy Policy Committee, the Danish Energy Authority will, in pursuance of paragraph (a) of section 12(1) and section 12a(7) of the Subsoil Act, invite applications by publishing a notice in the Danish Official Gazette and the EU Official Journal at least 90 days before the deadline for applications. The intention is to fix the deadline at 1 November 2005, depending on the time of publication, so that applicants are given about six months to prepare an application. Licences in the 6th Licensing Round are expected to be awarded in spring 2006.

Before any licences are issued, a statement describing the licences to be awarded will be submitted to the Energy Policy Committee; see section 6(1) of the Subsoil Act. As before, the intention is to discuss the geological basis for applications received with the Geological Survey of Denmark and Greenland before any position is taken on issuing licences.

Confidentiality

Under section 12(2) of the Subsoil Act, members of the Energy Policy Committee and any other parties attending its discussions about this statement are under an obligation not to disclose any information that comes to their knowledge in the Committee regarding the terms and conditions on which licences are to be granted according to the procedure set out in paragraph (a) of section 12(1) until the date when the invitation for applications is published.