

Questions & Answers

SECOND ONSHORE LICENSE ROUND

TENDER GUIDANCE

1. Please confirm our understanding that the bidder is entitled to rely on financial capacities of its ultimate controlling company, which is, in turn, considered to be the “controlling company” of the bidder (within the meaning set out under the bidding instructions). Also, please confirm our understanding that the direct shareholder of the bidder is not obliged to issue the consent for the bidding entity’s application for this bidding round. In other words, please confirm our understanding that only the ultimate controlling company needs to grant its consent (which the bidder needs to enclose to its bid).

In addition to this, please confirm our understanding that, the bidder is only obliged to deliver the extracts from the relevant commercial registers (or similar corporate documentation) for the companies included in the shareholding chain, along with a simple overview of the corporate structure of the bidder, showing the shareholding / ownership link between the bidding entity and its ultimate controlling company.

Your understanding is correct. In this bidding round the potential bidder may rely on the financial capacity of its ultimate controlling company. The bidder is obliged to deliver extracts from the commercial registers showing the connection between the bidder and its ultimate controlling company, i.e. the shareholding structure.

2. Considering the size of the financial statements, please confirm our understanding that the bidder is entitled to enclose only the relevant sections of the annual reports containing the indicated four specifics. In other words, please confirm that the bidder is not obliged to enclose the whole sets of documents encompassing a variety of irrelevant items for purposes of this bidding, but may pull out and enclose the relevant sections only.

Otherwise, should the Agency consider that the whole documents need to be enclosed, please confirm our understanding that the bidder may enclose the partial translations of the annual financial statements into Croatian language, and that it is not obliged to procure for the translations of the entire documents. In other words, please confirm our understanding that the bidder is obliged to enclose only the translations of the relevant sections containing: (i) the balance sheets, (ii) the profit and loss accounts, (iii) the summaries of the notes accompanying the financial statements, and (iv) the opinions of an independent auditor.

The bidder may deliver financial statements of the bidder and its ultimate controlling company which include: (i) the balance sheets, (ii) the profit and loss accounts, (iii) the summaries of the notes accompanying the financial statements, and (iv) the opinions of an independent auditor. Also, the bidder should provide whole sets of documents encompassing financial statements however, should translate only relevant sections and not entire document. Additionally, although the financial statements should be delivered in the original

form or as certified copies as per Bidding documentation, we can accept PDF financial statements provided that the latter are signed by authorised person(s).

3. Please confirm our understanding that the bidder is obliged to prepare and enclose only a simple overview containing the basic information on the number of employees and the information on the key employees' roles in different projects related to exploration and production of hydrocarbons. In other words, please confirm our understanding that the bidder is not obliged to enclose any supporting documents evidencing the employees' employment status and professional experience (such as, for instance, employment agreements), but, rather, it may enclose such documents upon its sole discretion.

Also, please confirm our understanding that, for purposes of demonstrating the relevant experience in the sector at hand, the bidder is entitled to rely on the experts currently employed by other (un)affiliated companies, which would in turn issue a statement that it will assign its human resources to the bidder.

Regarding the qualification and experience of the employees, the bidder is obliged to deliver number of permanently employed workers involved in the exploration and production of hydrocarbons together with CVs of the key employees with description of their relevant experience and roles in specific projects for the previous period of 5 years.

Employment agreements are not listed as documents which need to be delivered with the bid. Nevertheless, the Committee evaluating the bids may request from the bidder delivery of relevant documents showing that the key employees are employed with the bidder.

4. Please confirm our understanding that the prospective bidder is obliged to deliver only one bid guarantee (issued in the amount of EUR 500,000.00), irrespective of whether the bidder submits the bid for one, several or all exploration blocks. In other words, please confirm that the prospective bidder is not obliged to submit individual bid guarantees in the amount of EUR 500,000.00 per each exploration block for which the bidder submits its bid. According to our understanding, submitting a single bid guarantee in the amount of EUR 500,000.00 fulfils the requirements stipulated under the bidding instructions.

Your understanding is right, bidder should deliver only one bid guarantee (issued in the amount of EUR 500,000.00), irrespective of whether the bidder submits the bid for one, several or all exploration blocks. Hence, one bid- one or more blocks-one guarantee.

5. Please confirm our understanding that the only requirements that need to be fulfilled by the prospective bidder in such a scenario are: (i) the delivery of the consent of the bidder's controlling company for applying for the bidding round, and (ii) the delivery of the revised (that is, audited) financial statements of its controlling company. In other words, please confirm our understanding that the prospective bidder and/or its controlling company are not obliged to fulfil any further requirements / formalities with respect to the prospective bidder's bid, in order for the prospective bidder to properly rely on the financial capacities of its controlling company.

We confirm your understanding. Delivery of controlling company`s consent and its financial statements for past 3 years are considered as fulfilment of requirements under Section 3.2 and 3.5 of bidding instructions with respect to controlling company.

6. We understand that term Investor as defined in the bidding documentation is equivalent to the term Investor as defined in the Act on the Exploration and Production of Hydrocarbons. If there are more Investors/bidders acting jointly as consortium than each entity (Investor) has right to sign the Production Sharing Agreement.

This understanding is correct.

7. Please confirm our understanding that the licences for exploration and production of hydrocarbons in case when several bidders are submitting bid jointly as consortium, grants right to each consortium member to conclude the Production Sharing Agreement and the right for direct awarding of the licences for the production of hydrocarbons in proportion to its share in consortium. In other words the licence for exploration and production of hydrocarbons shall not be awarded to consortium nor to the one member of consortium as representative of the consortium.

The licence for exploration and production of hydrocarbons shall be awarded to the consortium, i.e. to all members of the consortium, and on the basis of the awarded licence all members of the consortium have right to sign the Production Sharing Agreement. Moreover, under the licences the Operator appointed by the consortium shall be approved.

8. Please confirm our understanding that in case the consortium submits the bid, the term bidder refers to each member of the consortium individually, i.e. to each investor who is a member of the consortium and each member of the consortium shall have rights granted under the awarded licence for exploration and production of hydrocarbons in proportion to its share in consortium.

This understanding is correct. Nevertheless, pursuant to the Article 122 of the Act on the Exploration and Production of Hydrocarbons all members of the consortium are jointly liable for executing petroleum operations in accordance with conditions set forth in the awarded licence for exploration and production of hydrocarbons.

9. Please confirm our understanding of the consortium agreement should regulate the following:
i) purpose of entering into consortium agreement, i.e. conclusion that the signing parties are forming consortium for purposes of submitting a bid; ii) consortium members; iii) share of each member in the consortium; iv) appointment of the Operator; v) obligations of each consortium member to participate in submitting a bid and further obligations in case the bid is accepted.

This understanding regarding consortium agreement for purposes of submitting a bid is correct.

10. Please confirm our understanding that in case of a consortium, each consortium member shall have title over cost oil and gas and title over profit oil and gas in a certain portion at the delivery point. Also please confirm that each consortium member is entitled to dispose freely with its share of profit oil and gas.

In accordance with the Article 12 of the Production Sharing Agreement the Operator shall be the only legal entity which may, on behalf of the Investor, execute Agreements, incur costs, assume commitments and implement other actions in connection with the petroleum operations, which implicates that at the delivery point after royalties are paid to the Republic of Croatia the Operator shall have title over cost oil and gas and title over profit oil and gas. The Operator shall then divide title over profit oil and gas between consortium members in accordance with their agreement.

11. Please confirm our understanding that in case of a consortium each consortium member is obliged to pay its share of the royalty to the Republic of Croatia.

Taking in consideration the Article 12 of the Production Sharing Agreement under which the Operator shall represent all consortium members, the Operator is obliged to pay royalties to the Republic of Croatia.

12. Is it possible for a debtor to be also a guarantor regarding the bank guaranty?

Terms debtor and guarantor have been mistakenly mentioned in the provisions regulating issuing of guarantees by parent company. We can correct wording in way that only term debtor is mentioned.

13. Please confirm our understanding that the Investor and debtor are same entities.

This understanding is correct.

14. Is it a misspelling in point 6. i) where it is stated: " The Guarantor is a limited liability company incorporated and performs business in accordance with the laws of The Netherlands and has all authorization and necessary state approvals, authorization, consents, for performing this Guarantee"?

Yes, it is misspelling and it can be corrected.

15. Why expiration of parent company guaranty and bank guaranty have not been equally regulated?

This is mistake and it should be corrected. Parent company guarantee or corporative guarantee will be in line with expiration of bank guarantee.

16. What is applicable form for guarantee for decommissioning?

For avoidance of any doubt guarantee for decommissioning shall be delivered in further stages and proper form shall be discussed latter during negotiations. In case the bidder does not deliver guarantee for decommissioning together with the bid this shall not trigger collection of the bid guarantee.

17. Is the consortium member the same as Investor Party in the Production Sharing Agreement?

Consortium member is the same as Investor Party in the Production Sharing Agreement.

18. What is meant by an “economic operator”? Is the Investor also an “economic operator”?

Investor is regarded as an economic operator.

19. If the bidder is a consortium, does “Investor” refer to each legal entity which is a member of the consortium independently or is the consortium viewed as a single beneficiary represented by the Operator?

In case the bidder is a consortium, term investor refers to a consortium in whole – single beneficiary represented by the Operator.

20. If Investor refers to the consortium, who is responsible for submitting the work program and budget on behalf of the consortium?

The Operator is obliged to submit the work program and budget.

21. Under Article 26. of the Production Sharing Agreement the “Investor” is obliged to maintain its records and books. Does the Article 26.1.4 of the Production Sharing Agreement intentionally distinguish between Investor and Investor Party? For example, in a consortium will the Operator’s books and records be used to determine the profit share received by all consortium members?

In a consortium the Investor is obliged to maintain books and records regarding “the project” and based on Investor's books the profit share of each Investor Party, i.e. each member of the consortium, shall be determined.

22. Article 30. of the Production Sharing Agreement *Termination* and Article 31. *Assignment and Change of Control* distinguish between “Investor” and “Investor Party”. Is this distinction used to ensure that the “Investor” (if multiple parties in a consortium) will be treated separately for purposes of these provisions? If so, can it be assumed that in all other places “Investor” means all consortium members acting jointly under representation by Operator?

Regarding termination of the Production Sharing Agreement, in case any of the consortium members performs activities or acts contrary to the provisions of the agreement, i.e. triggers termination of the agreement, the agreement shall be terminated towards all members of the consortium.

Generally, your understanding is correct, in all other places term Investor means all consortium members acting jointly under representation by the Operator. Nevertheless, some provisions of the Production Sharing Agreement provide certain rights or obligations to consortium members individually and not to the Operator. This shall be explained in detail during negotiations and clarified in PSA.

23. Are Investor and Operator used interchangeably in the Production Sharing Agreement for purposes of rights and obligations? When Investor is required to take an action or receives a right, is it the Operator who takes the action and receives the right on behalf or in the name

of all Investors? For example, under Article 14, 26 and 27 of the Production Sharing Agreement are the calculations, books, records, and audits handled by Operator?

Operator takes all actions and receives rights on behalf of all members of the consortium. Your understanding regarding Articles 14 and 26 of the Production Sharing Agreement is correct, i.e. under the respective agreement the Operator is obliged to pay all fees and maintain business books regarding specific project. However, under the Article 27 of the Production Sharing Agreement all consortium members have right to access data held by the Ministry and Agency.

24. Does "Party" under the Production Sharing Agreement refer to the Republic of Croatia and each consortium member individually? Who is the lifting Party?

Under the Production Sharing Agreement Party means Republic of Croatia and each member of consortium individually, i.e. all entities which have signed the Production Sharing Agreement.

Lifting Party is the Operator.

25. Under dispute resolution provisions in the Production Sharing Agreement can each consortium member file for dispute resolution independently or is the Operator the party entitled to file for dispute resolution?

Investor Parties, i.e. each member of the consortium is entitled to file a claim under the Production Sharing Agreement.

26. Will the Republic of Croatia deliver title to each consortium member at the Delivery Point or will it deliver title to the Operator?

At the Delivery Point the title shall be delivered to the Operator who shall then divide the title to other members of consortium in proportion agreed between members of the consortium in their agreement.

27. Is each consortium member responsible for and entitled to independently sell its share of production to pay royalties and Petroleum Costs or is the Operator performing these duties on behalf of all consortium members?

At the Delivery Point the Operator is firstly obliged to pay royalties to the Republic of Croatia. When royalties are payed the Operator is entitled to retain the remaining part of production. Operator is considered as owner of the profit oil and gas, i.e. holder of the title, and the Operator shall divide the title to other members of consortium in the agreed proportion.

Once the ownership is divided between the partners in consortium each consortium member in entitled to independently sell its share of production.

28. Cumulative Net Revenues are used to calculate the R- Factor. Are the Cumulative Net Revenues those of the Operator or each consortium member individually? Do other consortium members potentially have different Cumulative Net Revenues and R-Factor?

Cumulative Net Revenues are those of the Operator.

Since the Operator is entitled to incur costs and perform all activities, X and Y shall be calculated based on the Operator's business books for specific project. This means that there are no X and Y for other members of the consortium.

29. Please confirm that Articles 14.4 and 16.1 of the Production Sharing Agreement are intended to protect all consortium member's confidential information and/or commercially sensitive information from disclose to third parties and not from disclosure to each other.

Under the Production Sharing Agreement confidential information of each consortium member shall be protected from disclosure to third parties. Members of consortium shall regulate confidentiality of their sensitive information under their agreement.

30. Please confirm that all consortium members are entitled to the same disclosures that are required to the Agency under the Production Sharing Agreement, including the information supporting the calculation of R-Factor.

All consortium members are entitled to the same disclosure that are required to the Agency.

31. Please confirm that right to use and have access to all geological, geophysical, drilling, well location maps and other information belong to consortium members individually.

All consortium members have equal right to use and access to geological, geophysical, drilling, well location maps and other information held by the Ministry and Agency.

32. What is meant by "operating company"? Will all members of the consortium and the Government be members of the "operating company"? Is this an obligation for the Investor?

Since bidding documentation does not predict establishment of the "operating company" in this case such establishment is not applicable.

33. Who makes the royalty payment to the Republic of Croatia? Operator on behalf of the Investor or each member of the consortium or Investor?

The Operator shall be responsible for payment of royalty to the Republic of Croatia.

34. Does each member of consortium maintain a cost recovery account or is this maintained by the Operator?

The Operator shall maintain cost recovery account.

35. To whom may the request described in the Article 18 of the Production Sharing Agreement be delivered?

This request may be delivered to all consortium members.

36. Who is the owner of assets prior to transfer?

Owner of assets prior to transfer is the Operator.

37. If the consortium does business only via Operator, does only the Operator have the right to deduct input VAT? Does the same apply to input VAT refund?

Using "if" suggest that there are other options available. We assume that other option would take place where supplies from third party would be made (and invoiced) directly to other consortium members. Please confirm.

Since only the Operator has right to incur costs and the Operator is obliged to settle all expenses related to exploration and exploitation, only the Operator has the right to deduct input VAT.

There are no other options since all invoices from suppliers shall be settled by the Operator.

38. Do you have an opinion on whether in the case of an unincorporated consortium (joint operations agreement), all consortium members should apply IFRS 11 – Joint Arrangements for recording of the assets, liabilities, revenues and expenses relating to its involvement in a joint operation even if the items are initially reflected in the accounts of the Operator.

In our opinion IFRS 11 is applicable for all the segments covering joint operation agreements.