



HYDROCARBON EXPLORATION AND PRODUCTION CONCESSIONS
2015 BID ROUND IN HUNGARY

HYDROCARBON EXPLORATION AND PRODUCTION TENDER

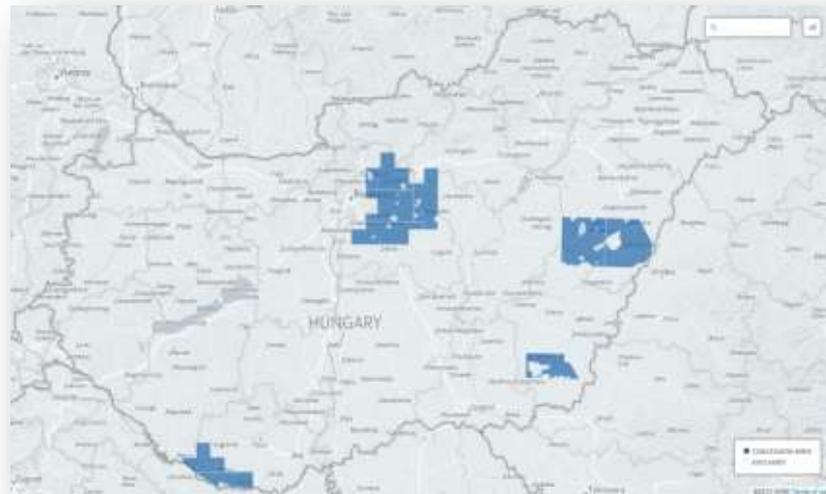
The Hungarian Government issued invitations to tender regarding 9 newly opened concession areas for hydrocarbons exploration and production. The tender process was opened in late April and bids may be submitted **on September 23, 2015**.

Below we briefly describe the concession areas open for bids and summarize the main aspects of the tender processes applicable to each of these concession areas.

AREAS OPEN FOR BIDS

Each of the nine concession areas is subject to separate bidding processes which are identical in their terms. The areas include:

- Battonya-Pusztaföldvár North
- Berettyóújfalu
- Dány
- Lakócsa
- Mogyoród
- Nagykáta
- Ócsa
- Püspökladány
- Sellye



Click on map to view in details

THE PANNONIAN BASIN

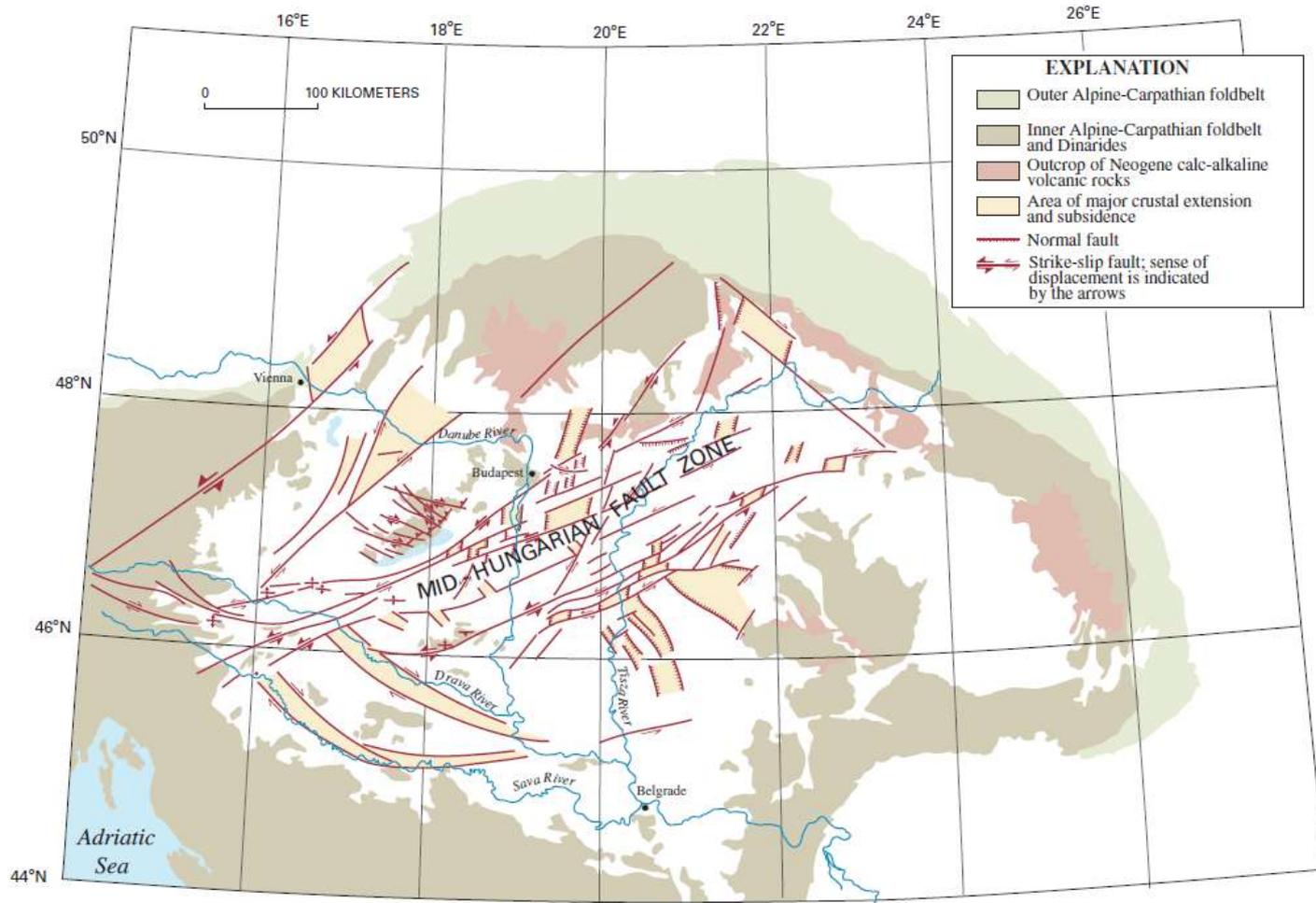
The concession areas are located in the Pannonian Basin surveyed by the [U.S. Geological Survey](#) (USGS) in 2006, which found **six total petroleum systems** and speculated there may be more.

The USGS noted that the Pannonian Basin consists of a **large compound extensional basin** of Neogene age overlying Paleogene basins the system being approx. 600 km wide from East to West and 500 km from North to South excluding the associated basins.

The Neogene Pannonian Basin historically has been the **primary petroleum exploration target** in the province and is composed of a complex system of extensional sub-basins lying within the arc of the Carpathian Mountains. Sub-basins are separated from one another by uplifted basement blocks but are tied together by a widespread blanket of younger Neogene and Quaternary sediment fill.

Although because of extensive exploration, most of the obvious structural and paleotopographic features have been tested, Neogene turbidite sequences in basinal areas and on flanks of structures, pinch-outs and truncations of fluvial, marine, and lacustrine strandline and deltaic sandstones, and biothermal build-ups appear **not to have been fully explored**, particularly in deep basinal areas.

THE PANNONIAN BASIN

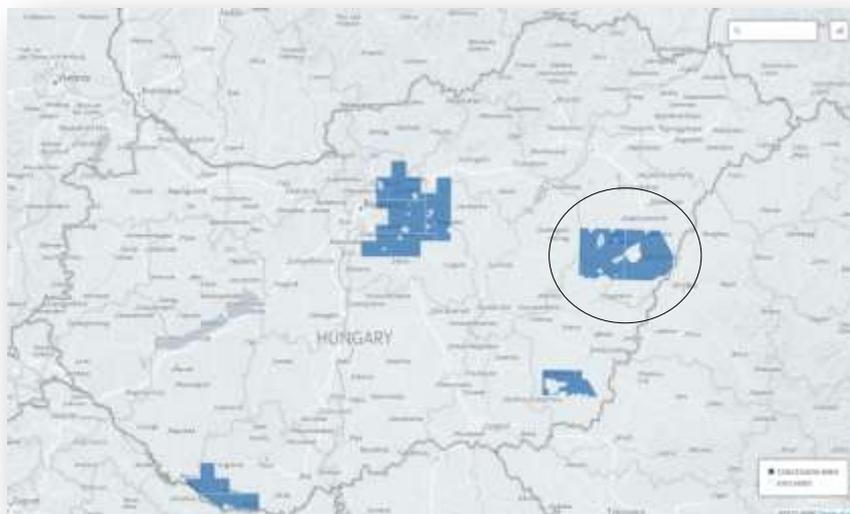


Tectonic map of the Pannonian Basin, Central Europe

Source: [U.S. Geological Survey](#), 2006

BERETTYÓÚJFALU AND PÜSPÖKLADÁNY

The **Berettyóújfalu** and **Püspökladány** concession areas are located in the Derecske basin and surrounding areas where hydrocarbon production is currently taking place.

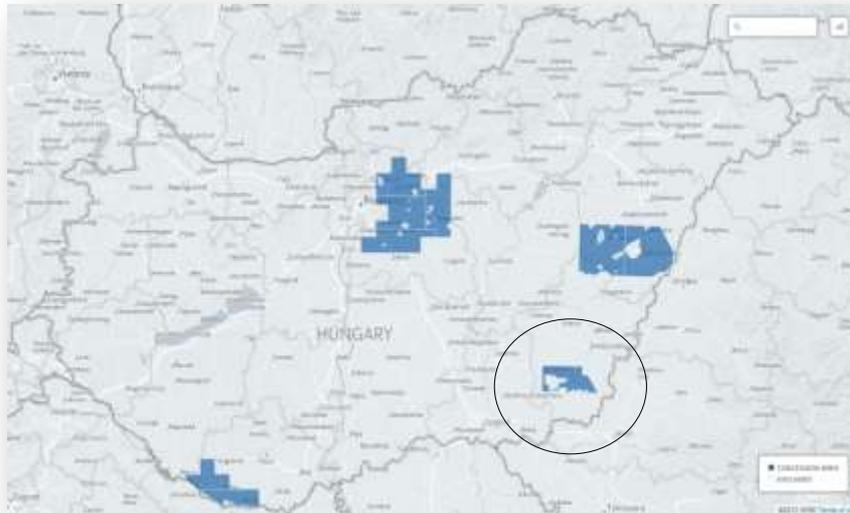


Concession Area	Minimum Concession Fee (HUF)	Minimum Concession Fee (approximate USD amounts)	Minimum Royalty
Berettyóújfalu	432,000,000 + VAT	1,522,500 + VAT	19%
Püspökladány	381,000,000 + VAT	1,343,000 + VAT	19%

English tender invitation available here: [Berettyóújfalu](#); [Püspökladány](#)

BATTONYA-PUSZTAFÖLDVÁR

The **Battonya-Pusztaföldvár** concession area is located in the **Békés** basin near the South-East border of Hungary and close to the historical **Algyő** and **Pusztaföldvár** gas fields and the **Makó** trough.

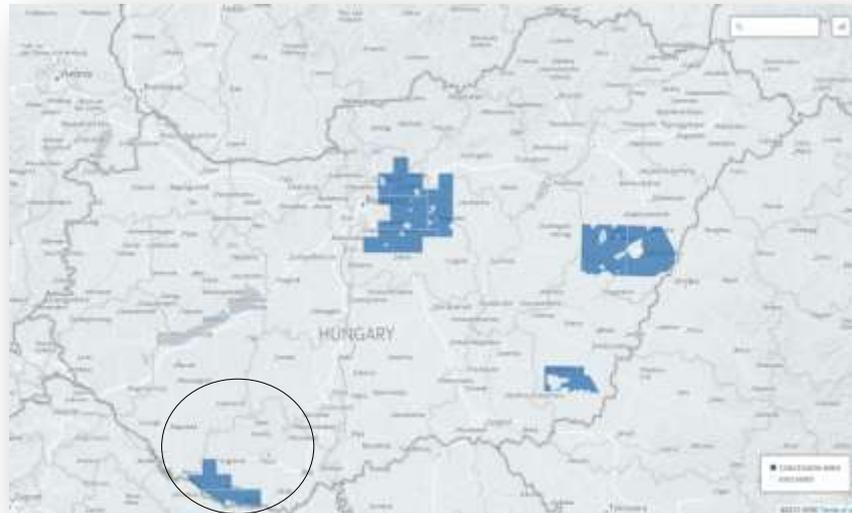


Concession Area	Minimum Concession Fee (HUF)	Minimum Concession Fee (approximate USD amounts)	Minimum Royalty
Battonya-Pusztaföldvár North	327,000,000 + VAT	1,152,500 + VAT	19%

English tender invitation available here: [Battonya-Pusztaföldvár North](#)

LAKÓCSA AND SELLYE

The **Lakócsa and Sellye** concession areas were identified in the South-West of Hungary. These areas fall close to the first of Hungary's oil and gas fields and are designated near other currently producing formations in the riverbed of the Dráva river bordering with Croatia.

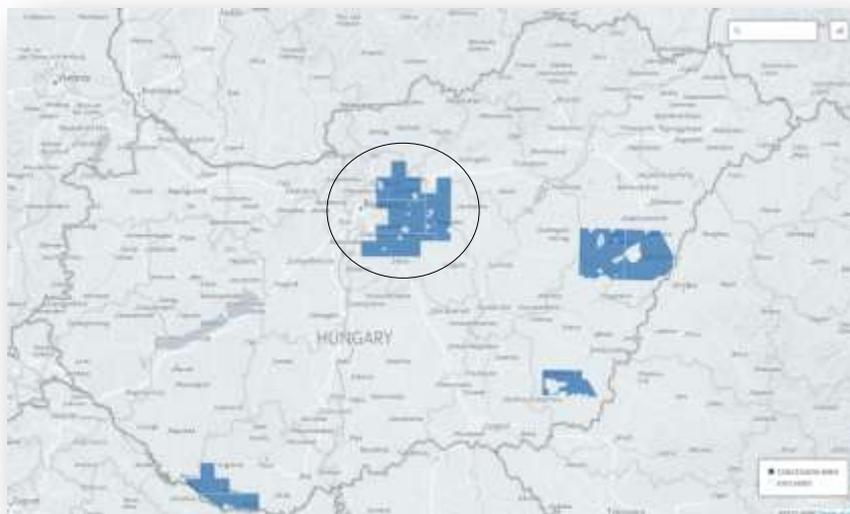


Concession Area	Minimum Concession Fee (HUF)	Minimum Concession Fee (approximate USD amounts)	Minimum Royalty
Lakócsa	189,000,000 + VAT	666,000 + VAT	19%
Sellye	186,000,000 + VAT	655,500 + VAT	19%

English tender invitation available here: [Lakócsa](#); [Sellye](#)

MOGYORÓD, NAGYKÁTA, DÁNY AND ÓCSA

A set of four concession areas (**Mogyoród, Nagykáta, Dány and Ócsa**) was designated in Central Hungary in the lesser explored area in the North-Western part of the Great Hungarian Plain. The USGS survey found the Great Hungarian Plain Basins a promising assessment unit.



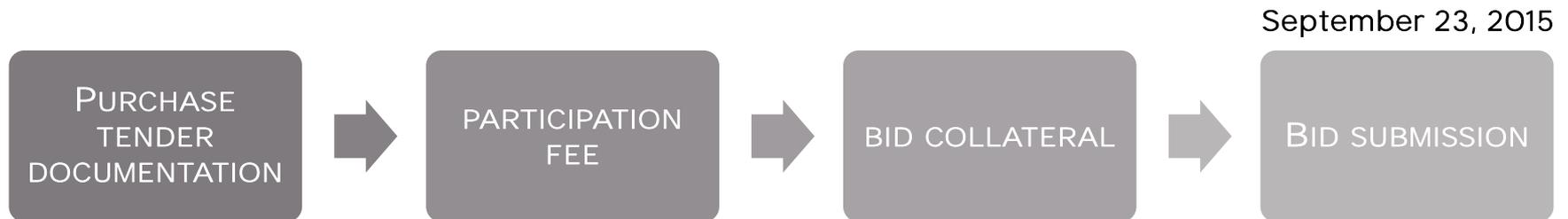
Concession Area	Minimum Concession Fee (HUF)	Minimum Concession Fee (approximate USD amounts)	Minimum Royalty
Mogyoród	201,000,000 + VAT	708,500 + VAT	19%
Nagykáta	288,000,000 + VAT	1,015,000 + VAT	19%
Dány	303,000,000 + VAT	1,068,000 + VAT	19%
Ócsa	234,000,000 + VAT	825,000 + VAT	19%

English tender invitation available here: [Mogyoród](#); [Nagykáta](#); [Dány](#); [Ócsa](#);

TENDERING PROCESS

As noted above, there is a **separate tender process for each concession area**. The first step in each tender process is to **purchase the full tender documentation** from the Hungarian Office for Mining and Geology administering the process for HUF 100,000 (approx. USD 355) + VAT. These tender documentations contain information about the legal, financial, technical and other conditions relating to the tender processes. Only those entities may submit bids who purchased this documentation, therefore if an advisory firm purchases the tender documentation to its own account, the actual bidder must purchase it again.

After purchasing the tender documentation, bidders must pay HUF 10 million (approx. USD 35,500) + VAT as **participation fee** and provide **bid collateral** in the amount of HUF 50 million (approx. USD 176,000) as detailed in the tender documentation.



BID SUBMISSION

Bids in each tender process may be submitted on **September 23, 2015 between 10 a.m. and 12 noon** local time in person at the Hungarian Office for Mining and Geology. Bids submitted in each tender process will be assessed within 90 days. According to the invitations to tender, the following aspects will be considered when the winners are selected:

A) Exploration Work Program:

- Program design aiming for maximum prospection of hydrocarbon and seeking to conduct exploration as comprehensively as possible and across as broad an area as possible on the concession site; the sum allotted for exploration; the planned duration of exploration; the projected quantity of hydrocarbon that can be produced;
- How up-to-date the envisaged technical solutions are;
- The measures envisaged for protecting the environment and preventing and reducing damage in the course of the work subject to concession;
- How soon commencement of production is envisaged.

B) Assessment criteria relating to the bidder's ability to perform the concession contract:

- The bidder's financial standing, the availability of the resources needed to finance the work to be performed under the concession, and the proportion of this accounted for by own resources;
- The total value of work performed in connection with hydrocarbon mining in the three years preceding the invitation to tender.

C) Assessment criteria relating to payment obligations undertaken in the concession contract:

- The net concession fee offered above the minimum concession fee set by the Minister;
- The size of the mining royalty offered above the minimum mining royalty set by the Minister.

CONCESSION CONTRACT

A separate concession contract for each of the concession areas will be awarded to the winner of each tender process, which the winner is obligated to conclude within 90 days from the announcement of the results (which the Minister may extend with 60 additional days on one occasion). The concession contracts will be awarded for a **period of 20 years** that may be prolonged on one occasion with **10 additional years**. Note, however, that the relevant Hungarian provisions require that exploration works must be completed in the first 4 years of the concession period (limited extensions may be granted).

Tenders may be submitted by “**transparent organizations**” (in addition to natural persons) essentially meaning companies whose real owners are known or which are listed on a stock exchange in the European Economic Area. This practically excludes typical off-shore companies regardless if they plan to make bids themselves or through subsidiaries.

The winner of each concession must **establish a concession company** under Hungarian law within 90 days of the concession contract entering into force and shall maintain a majority vote and ownership in this concession company throughout the concession period.

The concession contract will grant **exclusive rights** to the concessionaire to explore the concession area, develop fields and produce hydrocarbons from such fields identified in the course of its exploration works. After the exploration and development phases are closed, the concession area will be restricted to fields identified and confirmed as mining plots in resolutions of the competent mining authority.

ABOUT THE AUTHOR



Dr. **Attila M. Kovács**, LL.M is a senior associate at **bpv JÁDI NÉMETH** with broad domestic and international experience primarily specializing in energy law. He is a member of the Association of International Petroleum Negotiators and recognized co-author of publications focusing on energy law (e.g.: Getting the Deal Through - Gas Regulation, chapter of The Operation and Regulation of the Hungarian Natural Gas Industry). Besides his native Hungarian, Attila is fluent in English.

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