

DIGEST

2ND QUARTER OF 2020



Association
of Gas Producers
of Ukraine



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Extremely low prices and declining demand for hydrocarbons due to coronavirus pandemic make impossible further investment in one of Ukraine's most budget-generating sectors.

Downturn of investment in the new drilling will impact hydrocarbons production in the next 1-3 years. Investments' reduction will also escalate lack of jobs for the significant number of people in this and the related areas. In addition, state and local budgets are also about to suffer in case of short-received tax revenues.

As evidenced by world practice, nowadays governments are introducing additional instruments to support and protect oil and gas production. Ukrainian industry also needs governmental support and introduction of fiscal incentives to continue investment activities.



Victor Gladun,

CEO of JKK Oil&Gas Group and
JV Poltava Petroleum Company

Domestic oil and gas production requires governmental support

Largest-ever fall of oil and gas prices, along with the economic crisis escalation, caused by COVID-19, are deemed as the tremendous threat for domestic production. AGPU hereby emphasizes on the high risk of total elimination of investment activity, followed by the reduction of production in the short term.

Among the priority measures, required to support the industry, are the following:

- extension of the period of inalterability of taxation of hydrocarbons' production from the new wells from 5 to 10 years;
- introduction of the incentive rent for the recovered wells, which will be returned to normal operation in the course of capital repairs;
- establishment of the incentive tax rates for oil and condensate production from the new wells;
- encouragement of unconventional hydrocarbons' production, as well as development of a transparent methodology for their determination.

At the same time, in order to increase production and support this budget-generating industry, it is necessary to comprehensively review the tax rates for hydrocarbons' production in Ukraine and bring them in line with the European average rates.

Oil and gas companies' activity during quarantine is unlocked

Verkhovna Rada of Ukraine adopted the draft law No. 3438, which sets forth the details of public discussions pursuant to the Law of Ukraine "On Environmental Impact Assessment" (the "EIA") during the quarantine period. Hence, during this period public discussions related to the planned activities after submission of the relevant EIA reports will only be held in the form of submission of the written comments and suggestions (including the electronic form).

Adoption of this document will allow the gas production companies to resume EIA procedures, suspended since the beginning of the quarantine, and obtain the relevant EIA conclusions. Otherwise, gas producers would not be able to carry out any activities within the subsoil areas. In other words, drilling of wells and gas production would not be performed.

PSA tenders and PEC project: international investors are ready to invest in gas production

Romanian company Expert Petroleum won the Production Enhancement Contract project. During the first 5 years, this company committed to invest about UAH 1 billion in intensification, drilling of wells and infrastructure development within the drained mineral deposits of Ukrgasvydobuvannya company, located in Western Ukraine. Partnership between UGV and Expert Petroleum will allow gaining additionally at least 300 million of m³ of gas during 5 years.

The Government approved the winners of 3 production sharing agreements' tenders: British company York Energy (Ichnyanska block) and European energy holding EPH (Okhtyraska and Grunivska blocks). It is worth reminding, that, according to the terms of the tender, minimum investments in the development of 3 subsoil fields during the first 5 years will amount to USD 70 million.

Oleksandr Romaniuk took the leadership over the Exploration and Production Division of Naftogaz Ukraine, while Olena Kobets was appointed as the General Director of JSC Ukrgasvydobuvannya.

In May, DTEK Oil&Gas produced 5 million of m³ of gas per day, which is the record figure for domestic private gas production.

The Ministry of Energy and Environmental Protection of Ukraine was divided into two separate institutions. Olga Buslavets took the position of the Acting Minister of Energy, while Roman Abramovskiy was appointed as the Minister of Environmental Protection and Natural Resources.

Budyschansko-Chutivska subsoil block with more than 20 billion of promising gas deposits was put up for the auction on August 31.



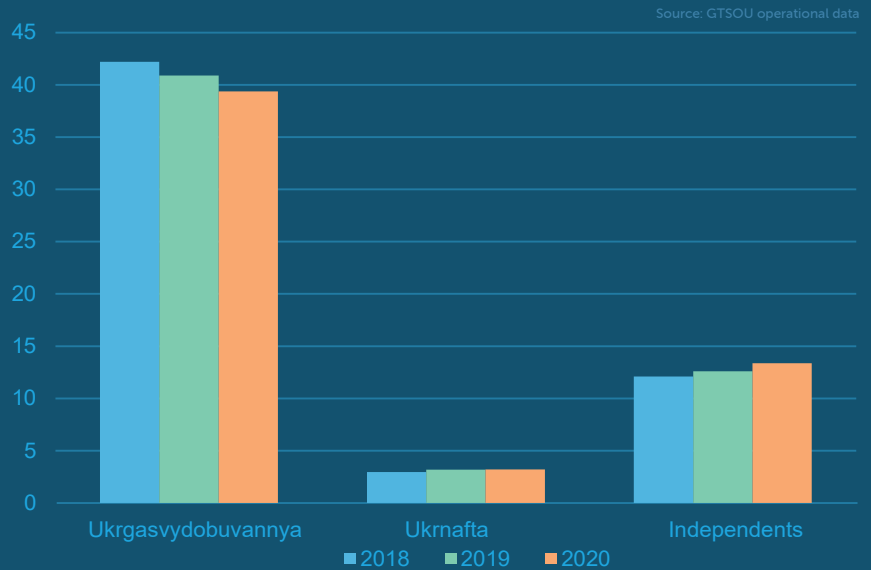
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Average daily gas production in the 1st half of 2020, million m³

In the first half of the year, Ukraine produced 10,2 billion m³ of gas, which is 3% less compared to the previous year.

Independent companies showed a 7,6% growth in gas production.

Ukrnafta enhanced production by 1,3% compared to the same period last year.



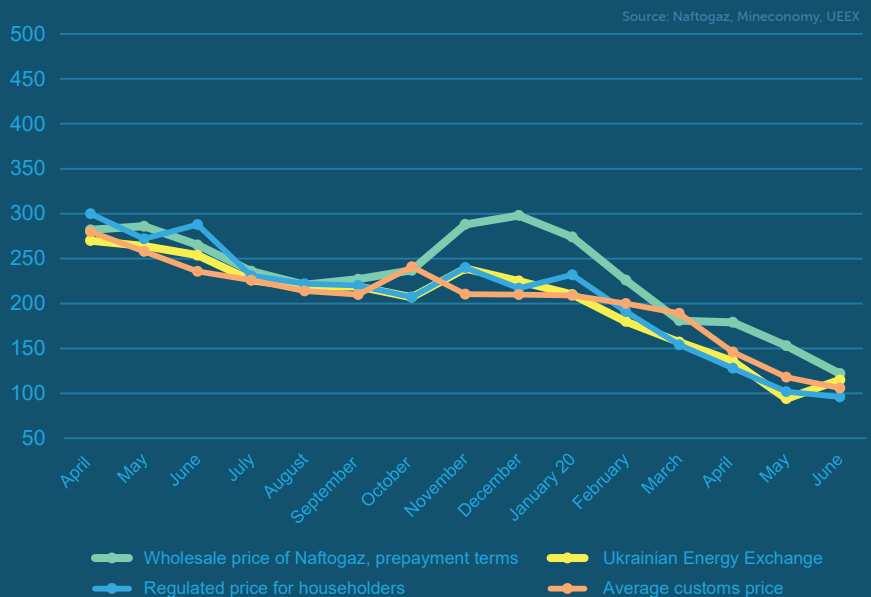
Wholesale gas price for the 1st half of 2020, \$/thousand m³, including VAT

During 6 months of 2020, hydrocarbon prices in Ukraine and around the world have shown the largest-ever fall.

Hence, the average wholesale market price was reduced by almost 52% and amounted to UAH 3825 (\$149).

The average price for householders decreased by 48% and amounted to UAH 3861 (\$151).

Average customs value of thousand m³ of imported gas also demonstrated reduction and amounted to UAH 4160 (\$161).



Number of active drilling rigs in Ukraine and Europe, pcs.

According to the Baker Hughes Rig Count, number of active drilling rigs in Ukraine was steadily decreasing during the 1st half of 2020.

Such trend is totally in line with the situation in Europe, where the number of active drilling rigs was reduced by almost 20% since the beginning of the year.

Reduced demand for hydrocarbons due to the economic crisis caused by Covid-19 and the record volume of gas contained in the underground storages remain the main reasons for the negative trend.

