



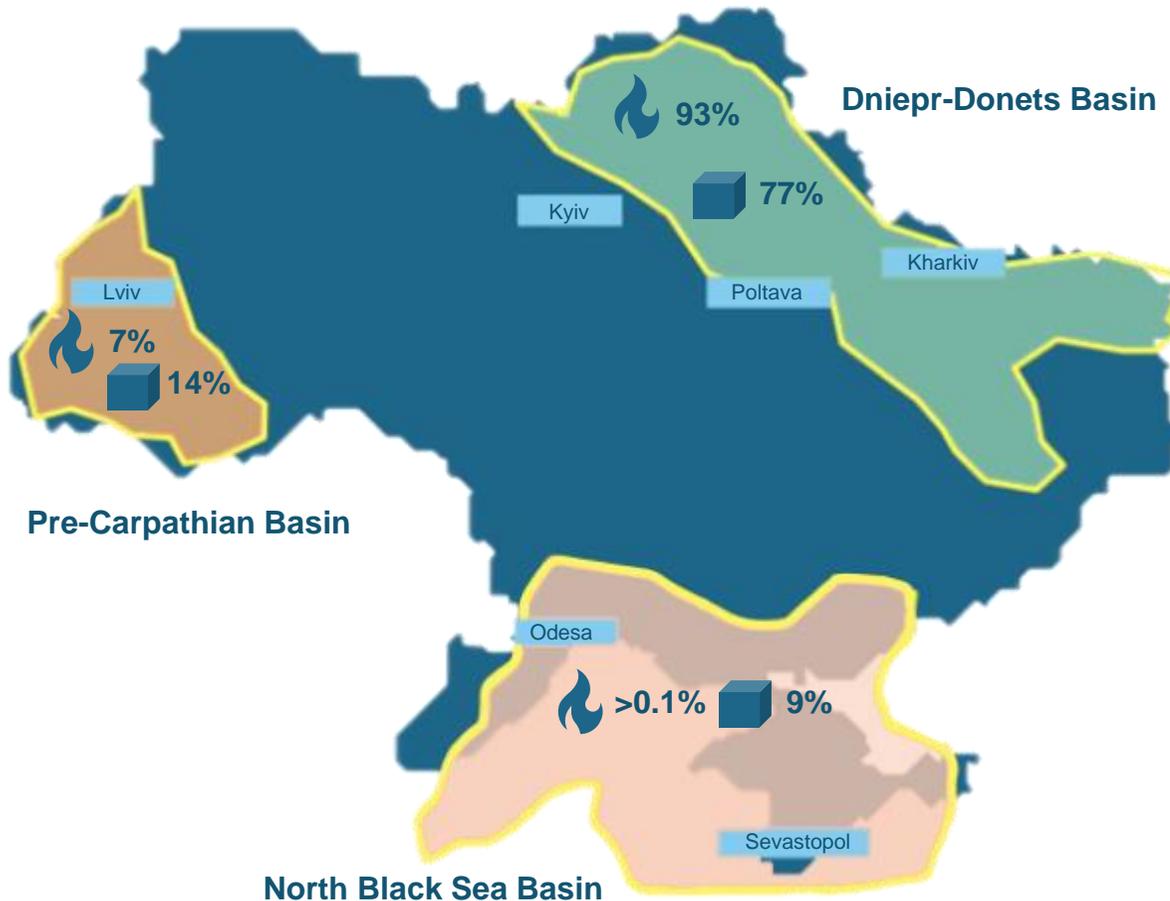
Association  
of Gas Producers  
of Ukraine

# WAR IN UKRAINE: SAVING GAS PRODUCTION INDUSTRY

May 2022



## A LARGE NUMBER OF UKRAINE'S FOSSIL FUELS ARE GATHERED WITHIN THREE MAIN REGIONS



- Ukraine has key reserves concentrated within the East, West regions and Black Sea Shelf
- Before the war, it ensured 2/3 of demand consumption domestically
- It still holds almost 900 bcm of prospective natural gas resources with a potential 5.5 trln cm resource base
- It has a great potential to increase production and finally reach one of the most significant ambitions – the energy independence



the share of natural gas production

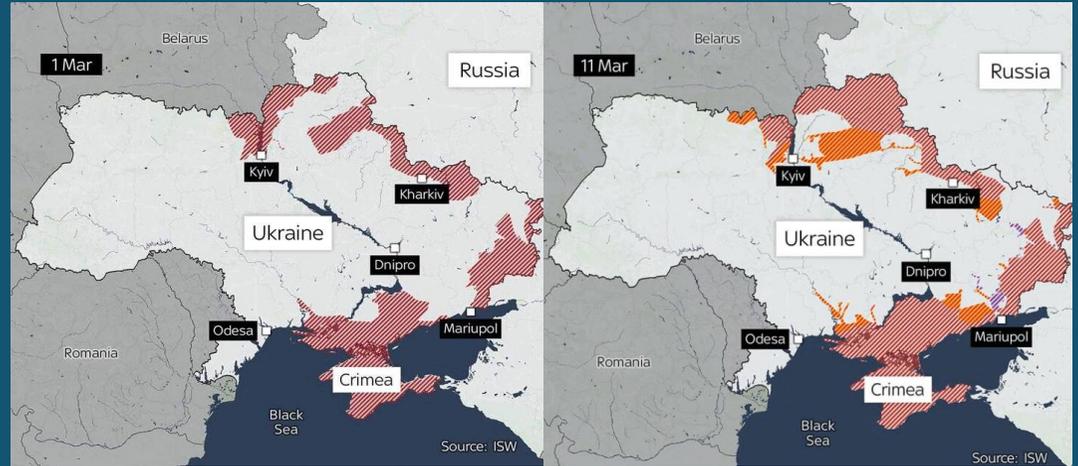
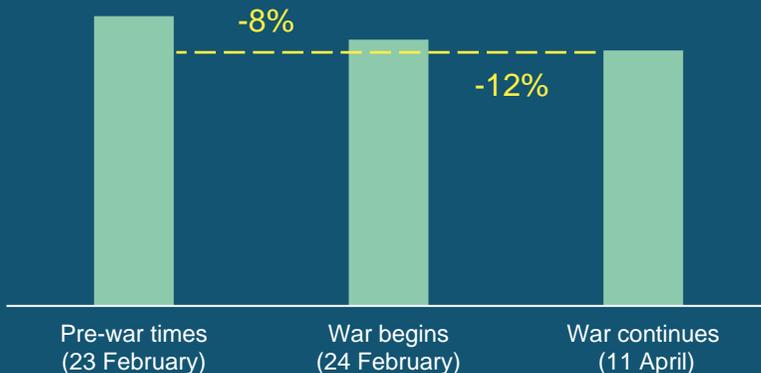


the share of natural gas booked reserves

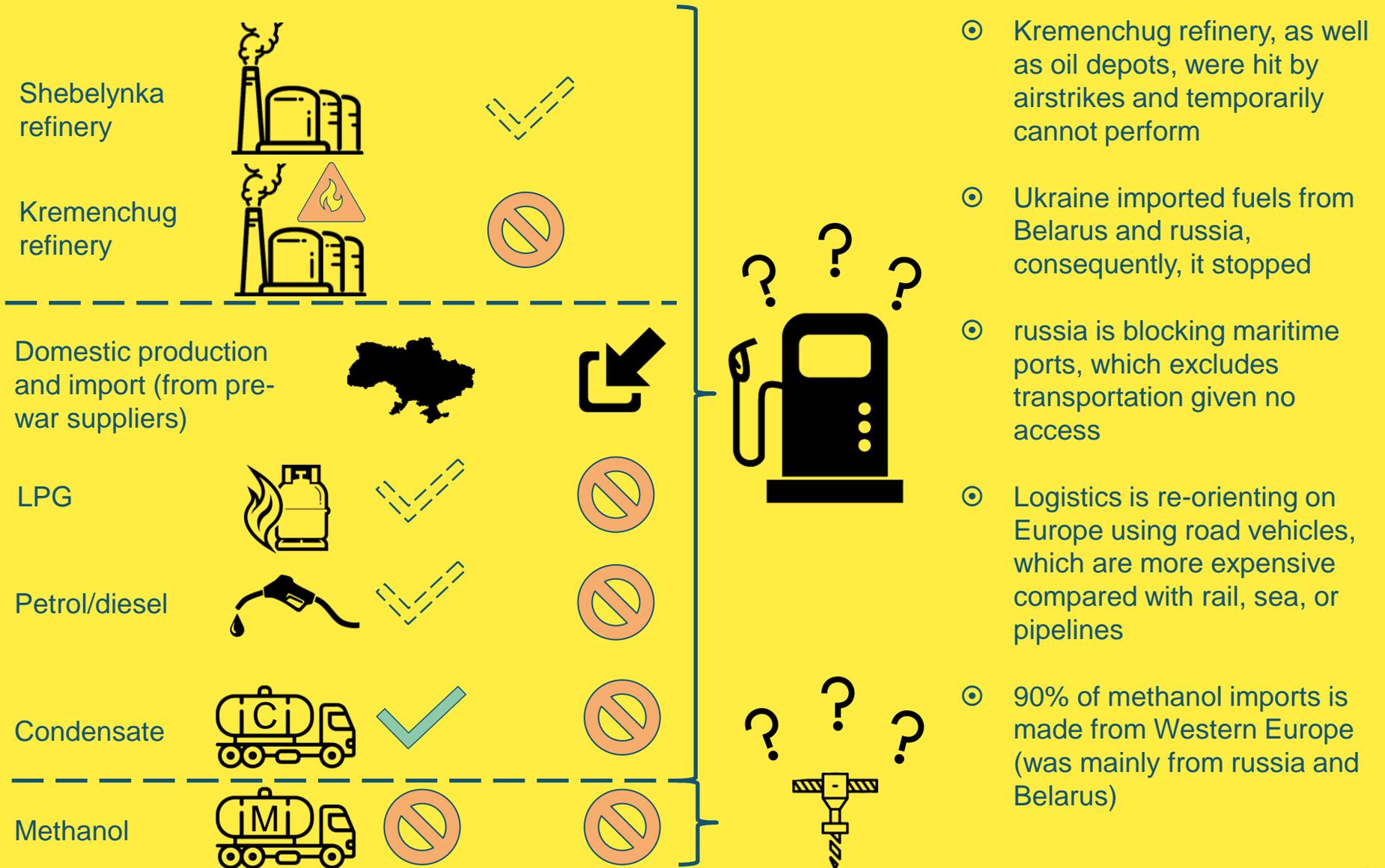
# BUT AS WAR KNOCKED ON OUR HOUSES, THE MAIN GOAL WAS TO SAVE THE INDUSTRY AND SURVIVE

- The Russian forces invaded Ukraine from the North, East and South, which directly affected natural gas production
- Thus, according to the official data provided by the TSO of Ukraine, as of March 2022, the reduction was 7%
- The Regulator has prohibited the publication of information regards the status of the energy sector, given the war
- Continuous airstrikes forced producers to maintain activity at facilities, where it remains physically possible

Ukraine's daily natural gas production since the beginning of the war



# THE WAR HAS SPARKED GROWING ISSUES IN THE FUEL AND ENERGY COMPLEX OF UKRAINE



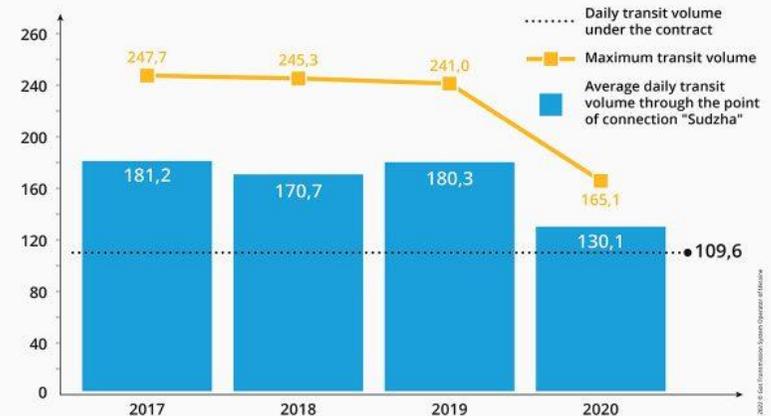


# THE OCCUPIERS INTERRUPT GAS TRANSIT VIA UKRAINE

- On the 10<sup>th</sup> of May, the TSO of Ukraine reported on hostile military units interfering in technological processes of GMS Sokhranivka and CS Novopskov
- It led to the force majeure, which made it impossible to continue transportation using these facilities
- Enemy forces changed the models of the operation of GTS including unauthorized withdrawals of gas from the system
- To fulfil its transit obligations to European partners in full and following the terms of the agreement, TSO described a possibility to transfer unavailable capacity from Sokhranivka to Sudzha (the facility in the territory controlled by Ukraine)
- Moreover, such a transfer already was tested during 12-15 October 2020 due to the planned repairs. The transit via Sudzha point was 165.1 million cm per day

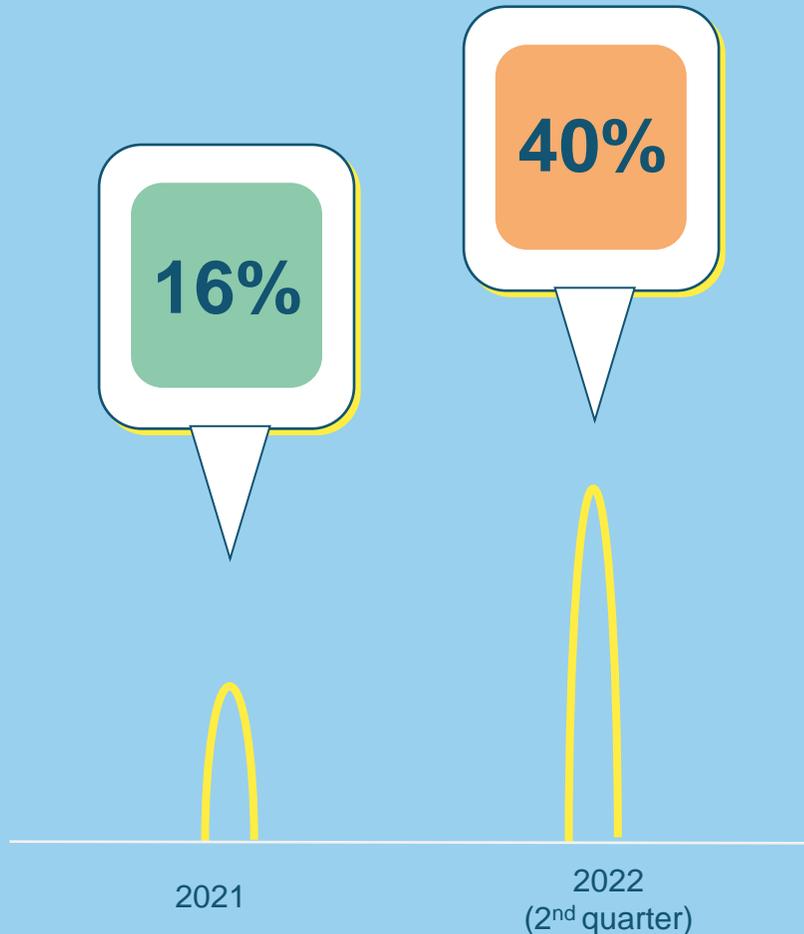


**Daily transit volume through the point of connection "Sudzha"**  
Million cubic meters (mcm)



# UKRAINE HAVE CHANGED ITS TAXATION FOR NATURAL GAS PRODUCTION

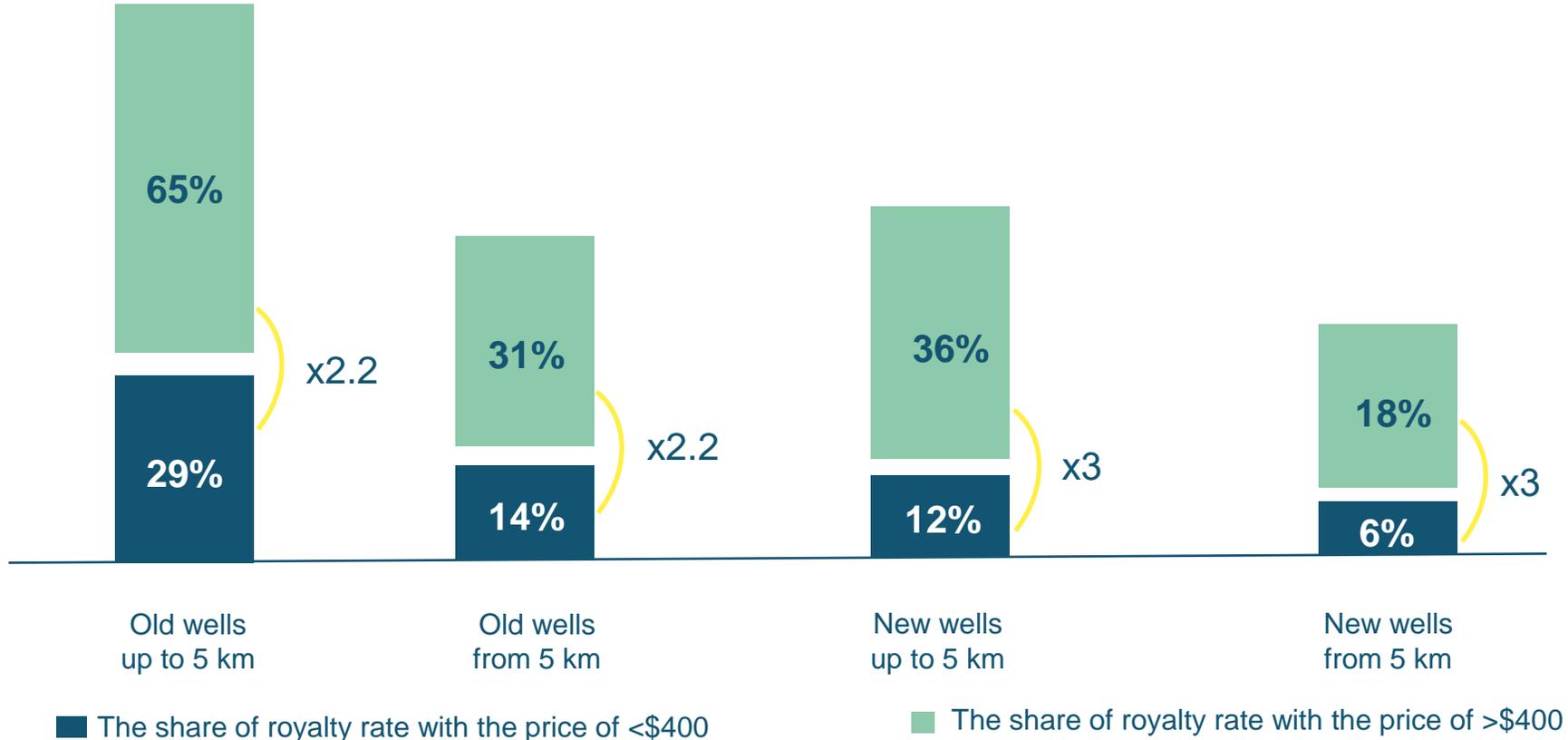
The average royalty rate for every thcm  
of produced natural gas



- ⦿ During the war, Ukraine introduced a new approach to defining the tax base, which concerns differentiated royalties with the dependence on the prices of the European market
- ⦿ It envisages the average between the (old) import parity price and (new) Front Month Settlement Prices on the European TTF hub average indices
- ⦿ Consequently, newly introduced taxation exceeds real sale prices in Ukraine by 20-30%
- ⦿ On the other hand, the PSA royalty rates remained unchanged – 2% for oil and 1.25% for natural gas
- ⦿ The same for the production at the Black Sea Shelf - 11%

## HOW DOES IT WORK IN PRACTICE?

Practical view on the new approach to the taxation in Ukraine, for example, considering a gas price of \$1 000/thcm



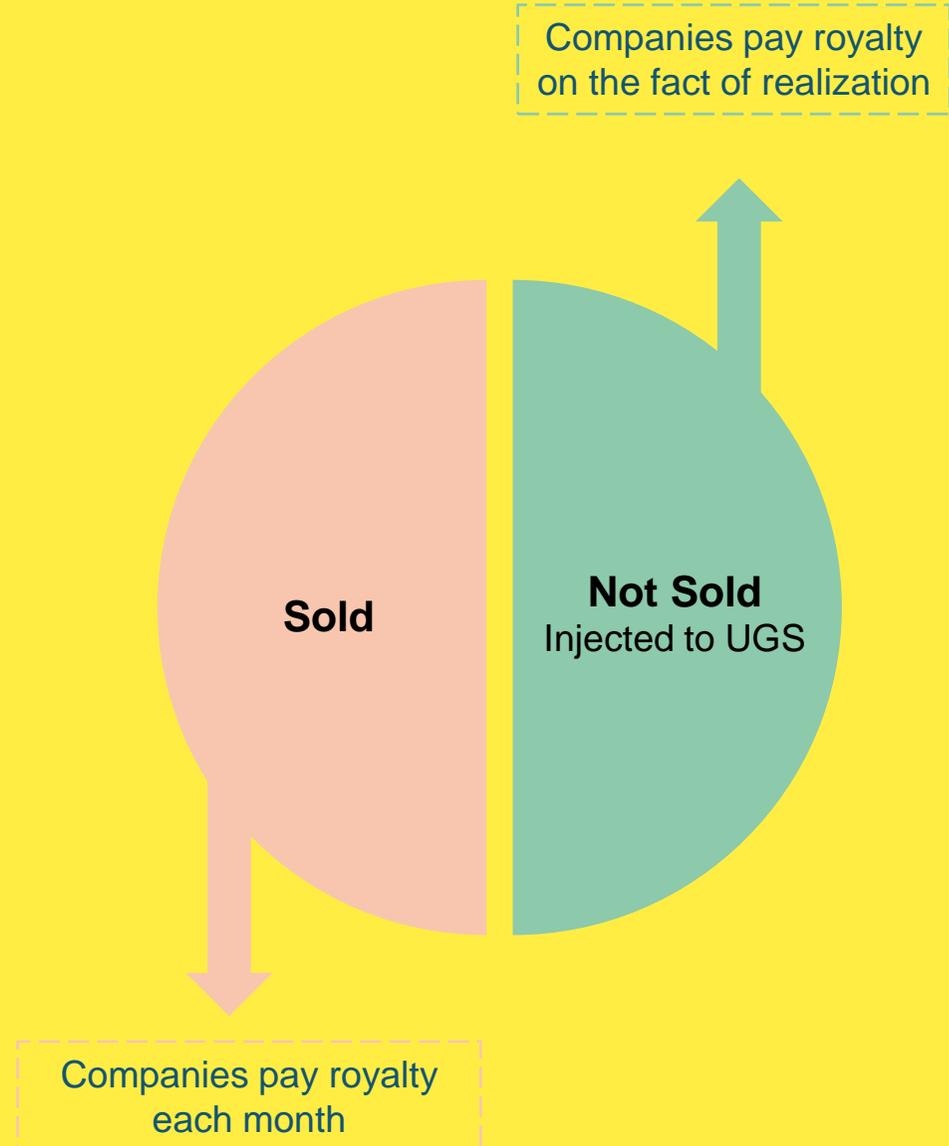
If natural gas price is less than \$150, the 0.5 coefficient is applied for royalty rates (29/14%, 12/6%)

If natural gas price in a range of \$150-400, royalty rates are 29/14%, 12/6%

If natural gas price is more than \$400, the royalty rates 29/14%, 12/6% are applied for the share of \$400, and the difference between the actual price and \$400 is taxable for 65/31%, 36/18% royalty rates

# A NEW TAXATION REGIME FOR NATURAL GAS PRODUCERS

- ⦿ Reduced consumption due to the war, and a gas export ban have led to the companies' inability to sell a share of 100% of produced volumes, but they still have to pay 100% royalty (regardless of sales volumes)
- ⦿ The draft Law No.7249, which is aimed to resolve this issue by changes to the Tax Code, is already voted on and waits for the President's signature
- ⦿ A new approach envisages the taxation only for natural gas that was sold
- ⦿ For the rest of the royalty, the companies must pay on the fact of realization according to the FIFO mechanism (first in – first out) for each reporting period (months)
- ⦿ Given the Law, the companies will pay a royalty based on the weighted average effective royalty rate per 1 000 cm



# AFTER THE VICTORY, UKRAINE WILL CONTINUE TO DEVELOP OIL AND GAS PROJECTS



## 13 PSAs

Ukraine has a great potential for natural gas production within the PSA projects. The developing of Buzivska, Berestyanska, Balakliyska, Ivanivska, Zinkivska, Sofiyivska, Varvynska, Ugnivska, Yuzivska and Oleska blocks will gradually continue

## Black Sea Shelf

In 2020, the Cabinet of Ministers of Ukraine has transferred 36 offshore blocks with the exclusive right to Naftogaz of Ukraine

## Other projects

It also has a majority of different assets, which includes the development Carpathian project, tight gas, conventional greenfields and PECs

## E-auctions

Since 2019, Ukraine fully implemented transparent e-auctions and already granted 25 blocks with an acreage of 4 000 sq. km

## BUT BEFORE THAT HAPPEN, UKRAINE IS ALREADY INTRODUCING WAYS TO COOPERATE IN BREAKING THE ENEMY'S PLANS



- ⦿ German Galushchenko, the Minister of Energy of Ukraine has claimed the possibility of providing 50% of Ukraine's UGS capacities for European needs this year
- ⦿ It is safe, given the location of such facilities, as the largest ones are in the Western region, away from military actions
- ⦿ The share of 50% is about 15 bcm of natural gas
- ⦿ For the transportation to the neighbouring countries and the import capacities, Ukraine's gas transmission systems allow 54 million cm at interconnectors across the Western entry/exit points



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**THANKS FOR YOUR ATTENTION!**