



Association
of Gas Producers
of Ukraine

ONE VOICE OF THE INDUSTRY

ANNUAL REPORT

2018

CONTENTS

**TOGETHER
TO THE ENERGY
INDEPENDENCE
OF UKRAINE!**

1. To our partners	4
2. Results and highlights	5
3. TOP-5 developments of 2018	7
✔ Launch of oil and gas auctions	
✔ Deregulation of upstream industry	
✔ Disclosure of geoscience data	
✔ Introduction of new GTS tariffs	
✔ Establishment of a single license fee	
4. TOP-5 tasks for 2019	15
5. Partnership	17

FOR THREE YEARS MANY POSITIVE THINGS ARE DONE JOINTLY FOR THE INDUSTRY



TO OUR PARTNERS

2018 has become fruitful year for reforms in domestic natural gas production industry.

The approval of long-awaited legal acts have laid a solid foundation for increasing gas production, attracting investment and achieving Ukraine's energy independence in the near future.

We can confidently state that the most important tasks of the government Action Plan on the implementation of the Concept for the development of Ukraine's gas production industry by 2020 are successfully implemented - key legislation is fully adopted.

Incentive taxation for the drilling of new gas wells, permitting simplification and royalty allocation to local communities, implementation of international transparency standards (EITI) and the launch of oil and gas online auctions and international tenders for conclusion production-sharing agreements have been introduced due to mutual efforts of the government, the parliament and the upstream industry.

Ahead is no less important work on attraction of foreign investors and leading oil field service companies to Ukraine. That is why our agenda for 2019 includes three strategic priorities:

firstly

active promotion abroad and conducting of transparent concession auctions and PSA tenders;

secondly

further deregulation of upstream legislation and setting favorable conditions for the development of unconventional hydrocarbons;

thirdly

preparation for updating the Subsoil Code and the establishment of online data-room of geoscience data.

Everyone in the world should know that our country is a reliable partner for investors who can be trusted.

We are the partner who thinks progressively and ready to learn quickly, implementing the world-class practices in the industry.

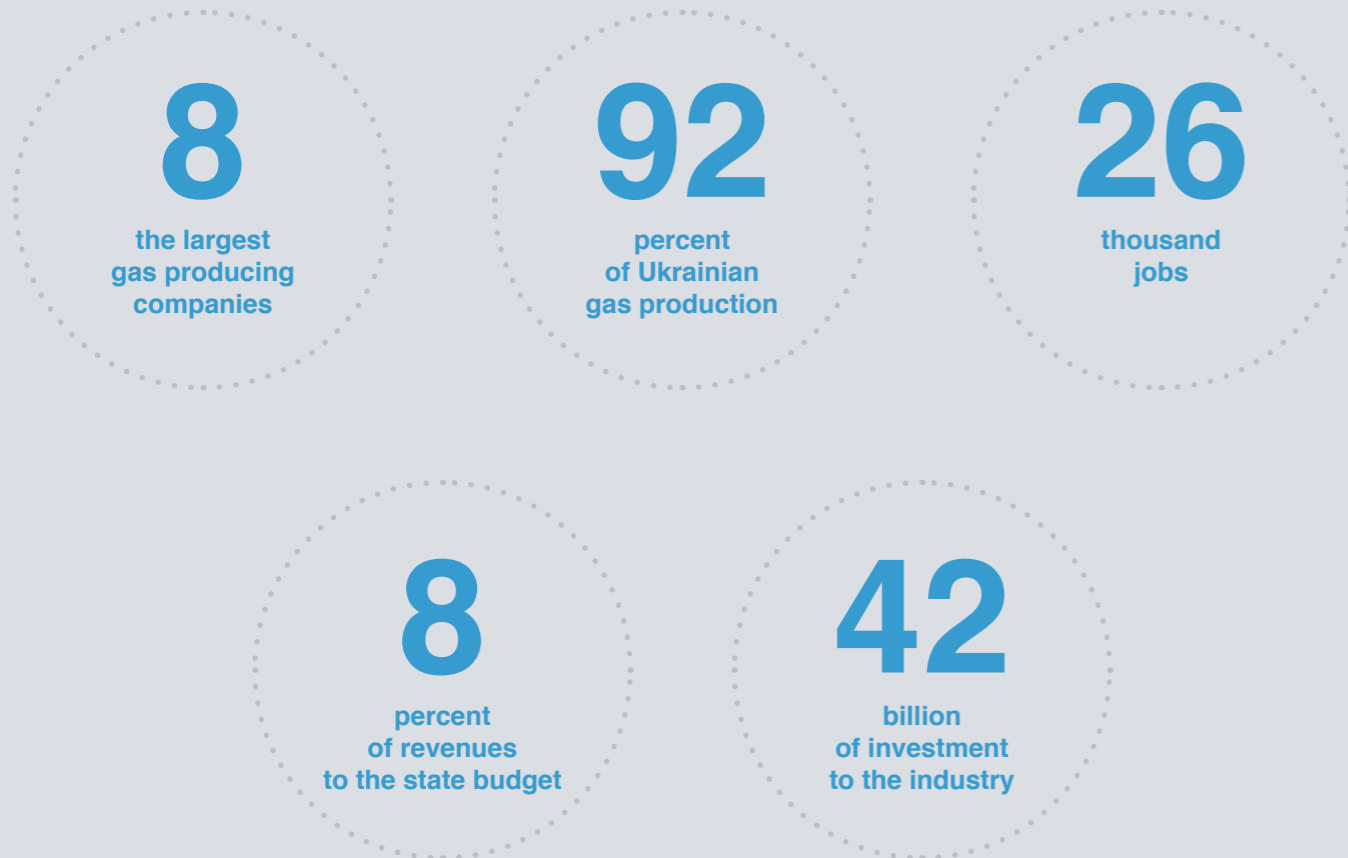
Roman Opimakh
Executive director



RESULTS AND HIGHLIGHTS

The Association of Gas Producers of Ukraine is the largest union of the leading private and national gas producing companies, comprising Ukrgezvydobuvannya, DTEK Naftogaz, Burisma Group, Ukrnaftoburinnya, Geo Alliance Group, Smart Energy Group, Poltava Petroleum Company and KUB-GAS.

The Association was established in 2015 with the aim of strengthening Ukraine's energy and economic security, increasing domestic natural gas production and boosting the industry development.



21
billion cm

of natural gas are produced in Ukraine in 2018, which is a 2.5% increase compared to the previous year. The growth rate remains moderate but stable for a third year in a row.

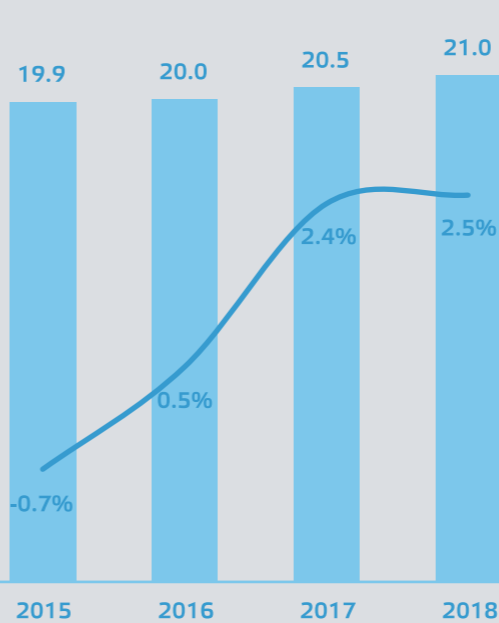
25
percent

more wells are drilled by both state run and private companies to back the record increase expectation of gas production in current year.

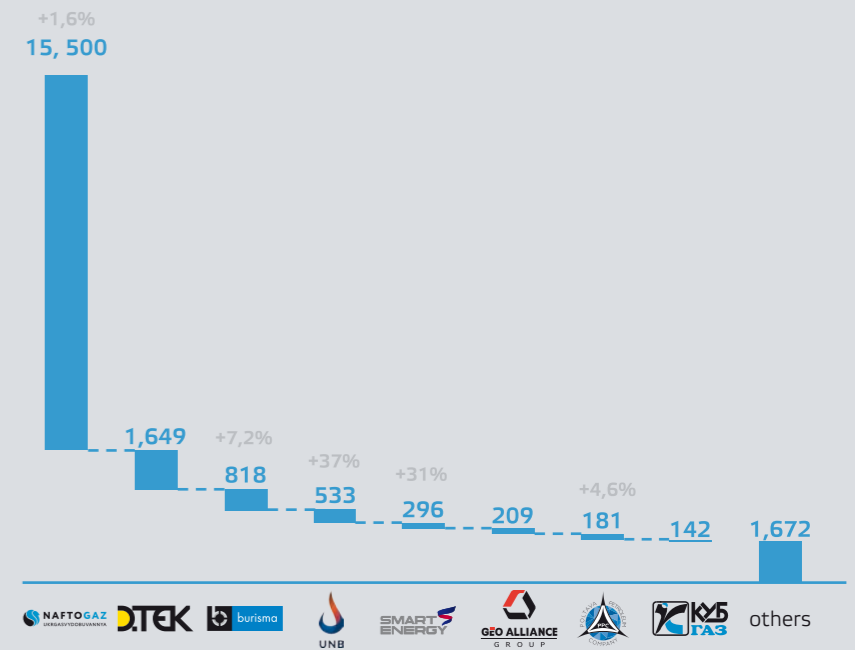
75
billion UAH

is the total amount paid to the state budget by the E&P industry, including almost UAH 2 billion of royalty paid to the local budgets.

Natural gas production in Ukraine billion m³



By the companies of the Association in 2018 million m³



Sources: AGPU, Ministry of energy and coal mining

TOP-5

DEVELOPMENTS OF 2018




LAUNCH OF OIL AND GAS AUCTIONS

Having eliminated the way of non-competitive issuing of licenses, the government began preparation for online auctions on the ProZorro.Sale e-platform and international tenders for the conclusion of production sharing agreements (PSA).

Opening of licensing rounds is determined as the key priority of the new five-year strategy of the European Bank for Reconstruction and Development in Ukraine, as well as noted in the Stand-by Arrangement for Ukraine with the International Monetary Fund.

40⁺ blocks covering more
20,000 sq. km are going
to be opened for
competitive bidding

Advantages of online oil and gas auctions on the ProZorro.Sale e-platform:

-  Transparent online bidding.
-  No qualification barriers and minimal interaction with the authorities.
-  90 days preparation period and three stages to select the highest bid.

GOVERNMENT ACTS HAVE BEEN PASSED

DEREGULATION OF UPSTREAM INDUSTRY

Cutting government red tape allowed to eliminate many Soviet rudiments and duplicates, which for years artificially constrained the development of the domestic E&P industry.

Due to the law adopted, the field development regulation have been improved in terms of time and simplicity.

20 permits and approval procedures have been abolished providing easier access to land tracts

Key changes:

-  The Central Commission on Development of Oil and Gas Fields was eliminated together with the approval of projects of fields development.
-  Mining allotment and permission to remove the fertile soil layers were canceled.
-  The permission for the construction of wells and the requirement to change the purpose of land tracts use were canceled.




DISCLOSURE OF GEOSCIENCE DATA

Disclosure of geoscience data is the key to successful concession auctions and PSA tenders. Simplifying access to the state own information will help to attract investors to explore hydrocarbons.

Independent producers began to disclosure their geological information. Poltava Petroleum Company first published data on one of its fields on the official website.

175 thousand volumes of geoscience reports are opened for free use

Key innovations:

-  The fee for secondary geoscience data is charged only after license acquisition.
-  Register of all geoscience data will be available in the public catalogue.
-  The requirement to approve the transfer of geoscience data is replaced by a simple informing.

INTRODUCTION OF NEW GTS TARIFFS

Domestic gas producing companies are guaranteed customers of gas transmission services. Establishing a competitive fee for the transportation of produced gas allows the industry to invest more, to develop active production and explore new fields for their development.

~92 UAH per thousand cubic meters per day is an entry tariff for domestic gas producers

The decision of the National Regulator is positively reflected in three aspects:

- Harmonization of Ukrainian legislation with European Union standards.
- Improving Ukraine's competitive position in the region and the investment attractiveness of the market.
- Increase of domestic gas production and use of Ukrainian gas transmission system.

SINGLE LICENSE FEE AND EITI REPORTING

Abolishing of fees for booked reserves increase, requirements for revaluation of reserves every 5 years and fees for the license prolongation unified domestic resource fees with the EU practices.

The implementation of international EITI reporting standards and increasing transparency of business is a significant advance in the development of the oil and gas industry.

SINGLE resource fee for license granting

Ensuring transparency in the extractive industries will contribute to:

- Improving the investment climate and attracting new players to the market.
- Dispelling of the myths about the gas production industry.
- Availability of information on payments of the industry for the benefit of the state and communities.

YEAR IN PICTURES



PrJSC "MC"Ukrnaftoburinnya" joined the Association of Gas Producers of Ukraine (May 2018)



Presentation of investment scrutiny «Ukraine: Natural Gas Production. Playbook 2018» (October 2018)



Discussion in the Parliament of the key priorities of reforms in extractive industries (June 2018)



Launch of international oil and gas auctions on the ProZorro Sale platform (December 2018)

ONE VOICE OF THE INDUSTRY

ONE VOICE OF THE INDUSTRY

TOP-5

TASKS FOR 2019

1 THE ARRIVAL OF NEW PLAYERS

The involvement of foreign energy and service companies in the exploration and production of hydrocarbons, the application of leading international practices and advanced technologies will allow Ukraine to increase its gas production and achieve energy independence in the near future. An important component in this matter is the establishment of fruitful cooperation with local communities.

2 UKRAINE ON THE MAP OF THE BHGE RIG COUNT

The Baker Hughes Rig Count is an important indicator of the activity of the oil and gas industry and the barometer of consumption and demand for hydrocarbons in the world for over 70 years. The emergence of Ukraine on the international map of drilling rigs will serve as a good signal for the arrival of world-class gas producing and service companies in Ukraine.

3 MODERNIZATION OF UPSTREAM LEGISLATION

Updating of the relevant legislation that is more than 10 government acts should contribute to the further development of the industry. In particular, the creation of favorable conditions for the development of unconventional hydrocarbons has to be in focus, because a significant part of gas reserves and resources are hard-to-recover and trapped in tight formations.

4 CREATION OF A DATA-ROOM

The liberalization of geoscience data turnover through its digitization and online access is a widespread practice in leading gas producing countries in this purpose. Close cooperation of the government with the international partners having necessary expertise, as Alberta experts, will play an important role.

5 EFFECTIVE REGULATION

The efficiency in the field of subsoil use depends on the strength of the institutional capabilities of the State Geological Service and the codification of industry legislation, in close cooperation with the European Commission. The draft of the new Subsoil Code should correspond to the modern canons and contribute to the effective development of the sector. Establishment of one stop shop as the single agency to implement in practice the tasks of the updated Code is a requirement of the present.

PARTNERSHIP

Our active cooperation with the state authorities, industry organizations and partners contributes to the development of domestic gas production and strengthens the energy security of our country.

Together, we implement important reforms in the sector, improve the investment attractiveness of the industry, build a social partnership with gas producing regions and create a competitive energy market in Ukraine.

13

important amendments to the legislation are implemented through joint efforts in 2018

3
laws of Ukraine

8
government acts

2
NERC resolutions

In order to attract foreign partners an investment scrutiny “Ukraine: Natural Gas Production. Playbook 2018” is built and www.GOukraineNOW.com platform is launched in English.

During the year, we participated in energy conferences in Ukraine and abroad, held round table discussions and workshops on topical issues of the industry, delivered lectures to students and regional industry journalists and published quarterly news digests on the gas production industry issues.



ONE VOICE OF THE INDUSTRY

THE ASSOCIATION COOPERATES WITH

42/44 Shovkovychna St, office 11-B
Kyiv, Ukraine, 01004

+38 044 535 536 4
+38 097 536 536 4

office@agpu.org.ua

www.agpu.org.ua

