



«One of the main priorities of the new government is the development of the industry and increase of Ukrainian gas production.

It gives hope that the industry reforms will be continued and positive changes will take place as soon as possible. It is about completing modernization of the industry legislation in accordance with the international standards, regular conducting of oil and

gas auctions and tenders, creation of up-to-date data-room of geological information. Important for gas producers is stability and predictability of tax policy, equal rules and opportunities and invariability of the course to achieve energy independence».

Nataliia Grebeniuk
Chairman of the Board
Association of Gas Producers of Ukraine

STABLE COURSE AND QUICK REFORMS

President of Ukraine Volodymyr Zelensky assigned to implement urgent reforms in the oil and gas industry. By December 1, 2019 negotiate and conclude production sharing agreements with PSA tenders winners. By January 1, 2020, prepare lots for conducting oil and gas tenders and relaunch the State Geological Survey in order to strengthen its institutional capabilities.

Prime Minister Oleksiy Honcharuk assured that the government does not support the abolition of incentive royalty rates for the new gas wells and does not plan to review previously taken commitments on taxation.

AUCTIONS AND PSA TENDERS

The government has outlined 3 blocks for PSA tenders: Grunivska, Ichnianska and Okhtyrska. Their total area is 3,800 sq. km. Applications for participation in the tenders shall be submitted until November 3, 2019, but the possibility of postponing the deadline is being considered.

The Cabinet of Ministers also canceled the Dolphin offshore block PSA tender.

During the 4th round of the online auction on the ProZorro platform, oil and gas license for Tatalivska block (Chernivtsi region) was sold for UAH 27 million.

Ukrغازvydobuvannya became the winner. The State Geological Survey repeatedly outlined for the 5th round of electronic bidding 5 oil and gas licenses in three regions. The initial price of the proposed lots is more than 2 times lower than the previous one due to the decrease in hydrocarbon prices. The winners will be determined on October 30, 2019.

The parliament **approved the new government**. Oleksiy Orzhel became the Minister of Energy and Environmental Protection of Ukraine. Yulia Kovaliv, who was the Head of the Office of the National Investment Council, **was appointed to the position of the Deputy Head of the President's Office**.

European project on **updating the Subsoil Code of Ukraine** has started.

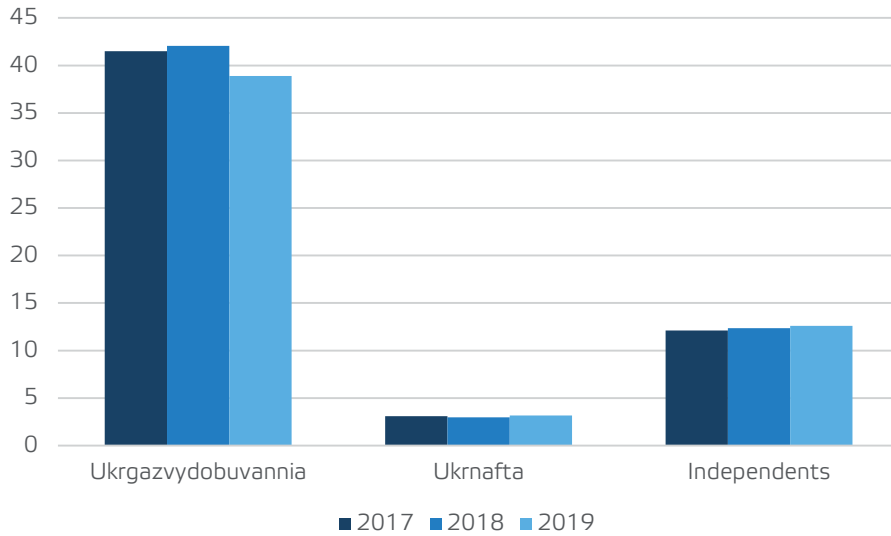
Ukrغازvydobuvannya **updated its Natural Gas Exploration and Production Strategy**. The company reduces drilling volumes and focuses on the cost-effective production projects.

DEVELOPMENT OF GAS PRODUCTION IS ONE OF THE MAIN PRIORITIES OF THE GOVERNMENT

The Government's Action Program envisages:

- development of oil and gas production and their processing, which will lead to creation of new jobs and expansion of the tax base along the whole chain of involved goods and services in related industries;
- arrangement and conducting of competitive and properly organized auctions and PSA tenders, which will help attract investments and leading practices in the subsoil use;
- development of the geological data digitization center, creation of interactive data-room and introduction of online account of the subsoil user;
- maximum substitution of energy imports, which will have a positive effect on the economic growth of the country;
- improvement of the investment climate in the sector by enhancing technological processes and adapting industry legislation to the best world standards.



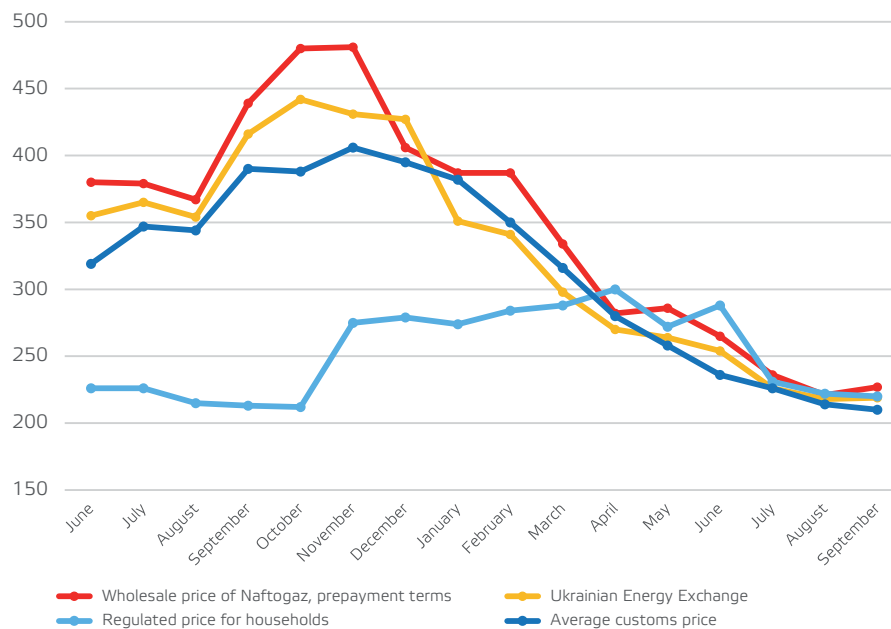


Average daily gas production in the third quarter, million m³

Gross gas production in the Q3 2019 compared to the same period of the last year decreased by 4.8%, which is explained by the rapid decrease in average daily production of UGV by 7.5%.

At the same time, daily production of Ukrnafta increased by 6.6%. Independent companies also showed an increase of 1.6%.

Source: UTG operational data



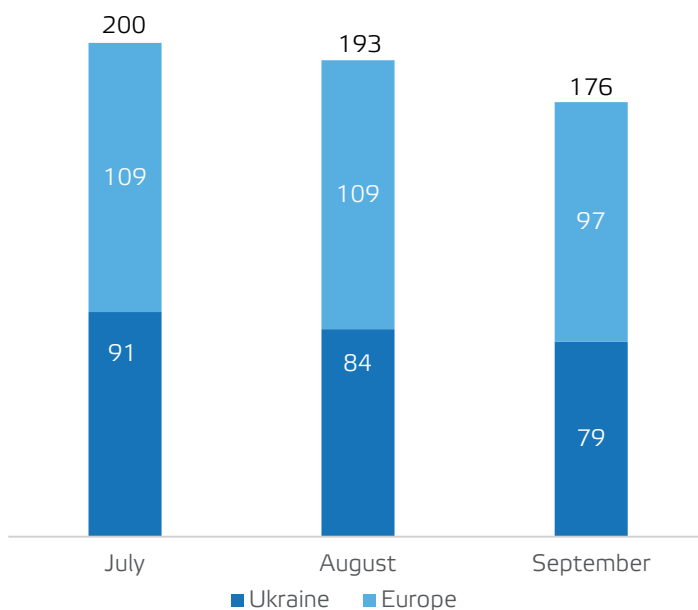
Wholesale gas price for the last year, \$ / thousand m³

In the Q3 2019, prices at European gas hubs hit a 10-year low. The weighted average price in Europe was \$ 136 / thousand m³ (\$ 3.83 MMBTU).

Prices in the Ukrainian market fully reflect the correlation with the European trend.

The average customs value of thousand m³ of imported gas for the 3rd quarter was \$ 217 (incl. VAT), the UEEX price was \$ 221 (\$ 6.2 MMBTU).

Source: Naftogaz, MEDTA, UEEX



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

According to the Baker Hughes Rig Count, in the Q3 2019 there was a tendency to reduce the number of active drilling rigs in Europe. In Ukraine, this trend is associated with a decrease in the amount of drilling by UGV.

As a result, a further sharp decline in the number of active drilling rigs in Ukraine is expected.

Reducing of drilling has led to a surplus and significant reduction in the cost of services, some of which have fallen in price by almost half.

Source: BHGE Rig Count