

DIGEST

1ST QUARTER OF 2020



Association
of Gas Producers
of Ukraine

The development of domestic gas production should proceed even in terms of the current epidemiological and difficult economic situation in the country and in the world. It is extremely important to maintain a stable fiscal policy in the sector, keep on modernization of the sectorial legislation and to attract new investors by conducting oil and gas auctions and tenders.

The industry expects a renewed version of Subsoil Code of Ukraine to be adopted in the coming months. This unified and codified document in the sphere of subsoil use must meet the best world practices and international standards. Undoubtedly, renewing of the Code would allow increasing the efficiency of subsoil use in Ukraine, which in turn should become the basis for the growth of the national economy and increase of natural gas production.



Serhii Glazunov,
CEO
of Smart Energy Group

Simplification of access to oil and gas subsoil

The Government updated important regulations regarding obtaining subsoil use licenses (No. 848 and No. 615), which will accelerate holding online licensing rounds and facilitate the development of the industry:

- requirement to obtain approvals from regional councils on allocating subsoil areas into use has been removed;
- all non-transparent mechanisms for obtaining the new licenses out-of-auction procedure have been canceled;
- reservation of subsoil areas prior to start of the official bidding procedure has been allowed.

The State Geologic and Subsoil Survey of Ukraine has launched the “Integrated Window” and works on launching the “Subsoil User’s E-Cabinet”

The State Geologic and Subsoil Survey of Ukraine launched the “Integrated Window” of a subsoil user – service designed to provide consultations on the completeness and correctness of the documents prepared for the extending and renewing licenses. To use the service you need to pre-register at e.vikno@geo.gov.ua.

The “Subsoil User’s E-Cabinet” is planned to be launched in April. The first stage will cover awarding, extension, re-registration, modification and registration of licenses, as well as integration with the Public Cadastral Map of Ukraine.

Starting from the second stage (from June 2020) subsoil users will be able to submit reports online, track the status of the documents and nominate a subsoil area for an auction.



3 PSA tenders: Interdepartmental Commission announced the winners

On April 1 the Interdepartmental Commission for the Organization of Conclusion and Implementation of Production Sharing Agreements announced the winners of 3 PSA tenders.

According to the results of the evaluation of applications:

- the European Energy Holding EPH (Nafta) is recommended as the winner of the tender for development of two oil and gas areas - Okhtyrська and Grunivska;
- the British company York Energy is recommended as the winner of the tender for the development of Ichnyanska block.

According to the tenders’ terms, the minimum amount of investments in the development of 3 blocks for the first five years will be USD 70 million.

The Government should consider the recommendations of the Interdepartmental Commission and approve the winners of the tenders within a month.

Ukrasvydobuvannya has presented the **new program on gas production increase called “Tryzub”** based on 3 directions: ultra-deep drilling, development of gas deposits from tight rocks and offshore areas.

EITI Ukraine **has launched e-platform** that provides open data on natural resources’ production, subsoil use licenses, tax payments etc.

This year the State Geologic and Subsoil Survey of Ukraine is going to propose subsoil areas **with the total area of 30,000 km²** for the auctions and tenders. Two areas will be offered for PSA tenders on the Black Sea offshore.

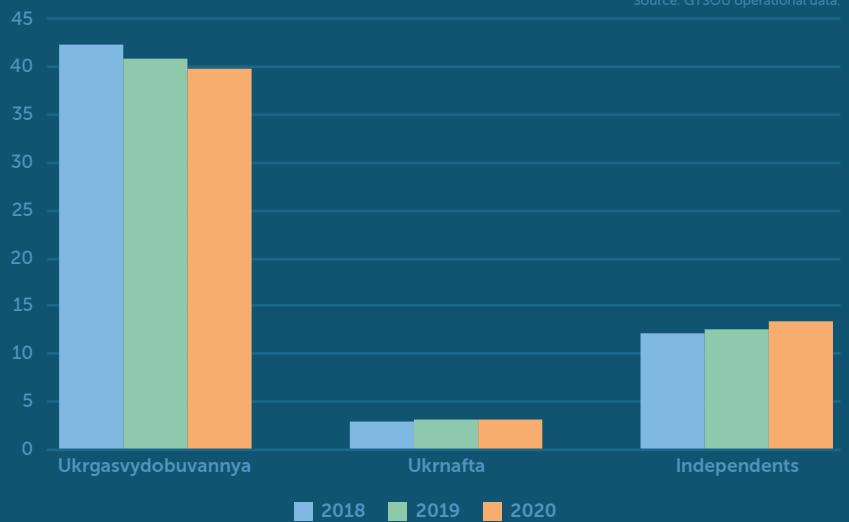


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Average daily gas production in the 1st Quarter, million m³

In the 1Q of 2020, Ukraine produced 5,1 billion m³ of gas, which is 3% less compared to the previous year. Such trend is associated with UGV's reduction of gas production by 6,5%.

At the same time, Ukrnafta increased numbers by 2,6%. Independent companies showed gain by 8,2%.

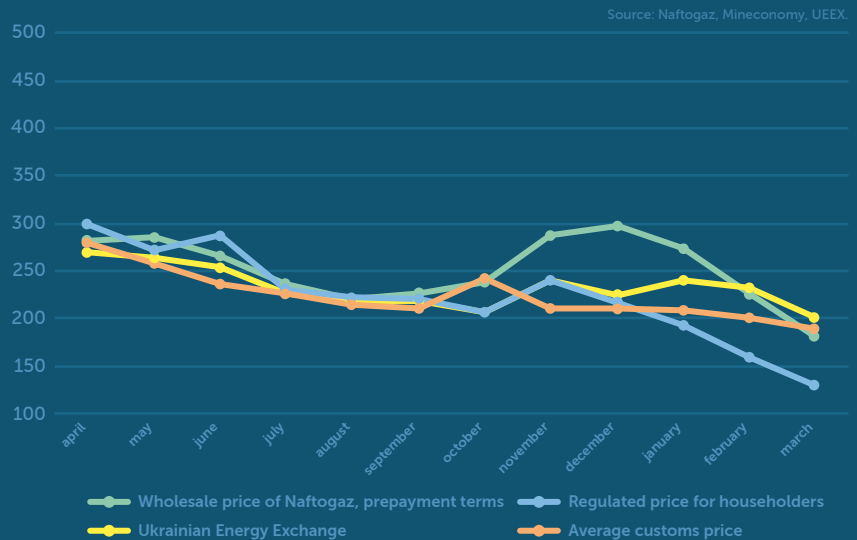


Wholesale gas price for the 1Q of 2020, \$ / thousand m³, including VAT

At the beginning of 2020, average-weighted price of natural gas at European hubs has shown essential reduction and was \$113 / thousand m³. Among the reasons is the record volume of gas in underground storages, warm winter and global spread of Covid-19.

Due to the gas supply market liberalization and world trends, price for householders has decreased by 43% compared to the same period of the previous year and was UAH 3988 (\$160).

Average customs value of thousand m³ of imported gas in the 1Q of 2020 was UAH 4997 (\$199), the weighted average price at UEEX was UAH 5601 (\$224).



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

According to the Baker Hughes Rig Count, 1Q of 2020 has shown gradual downward trend regarding active drilling rigs in Europe. It is mainly associated with a reduction of drilling costs due to declining demand and economic downturn because of Covid-19.

Owing to negative factors, the number of active drilling rigs in Europe can meet further reduction.

On the other hand, drilling volumes in Ukraine are stable and remain at the same level for 4 month in a row.

