



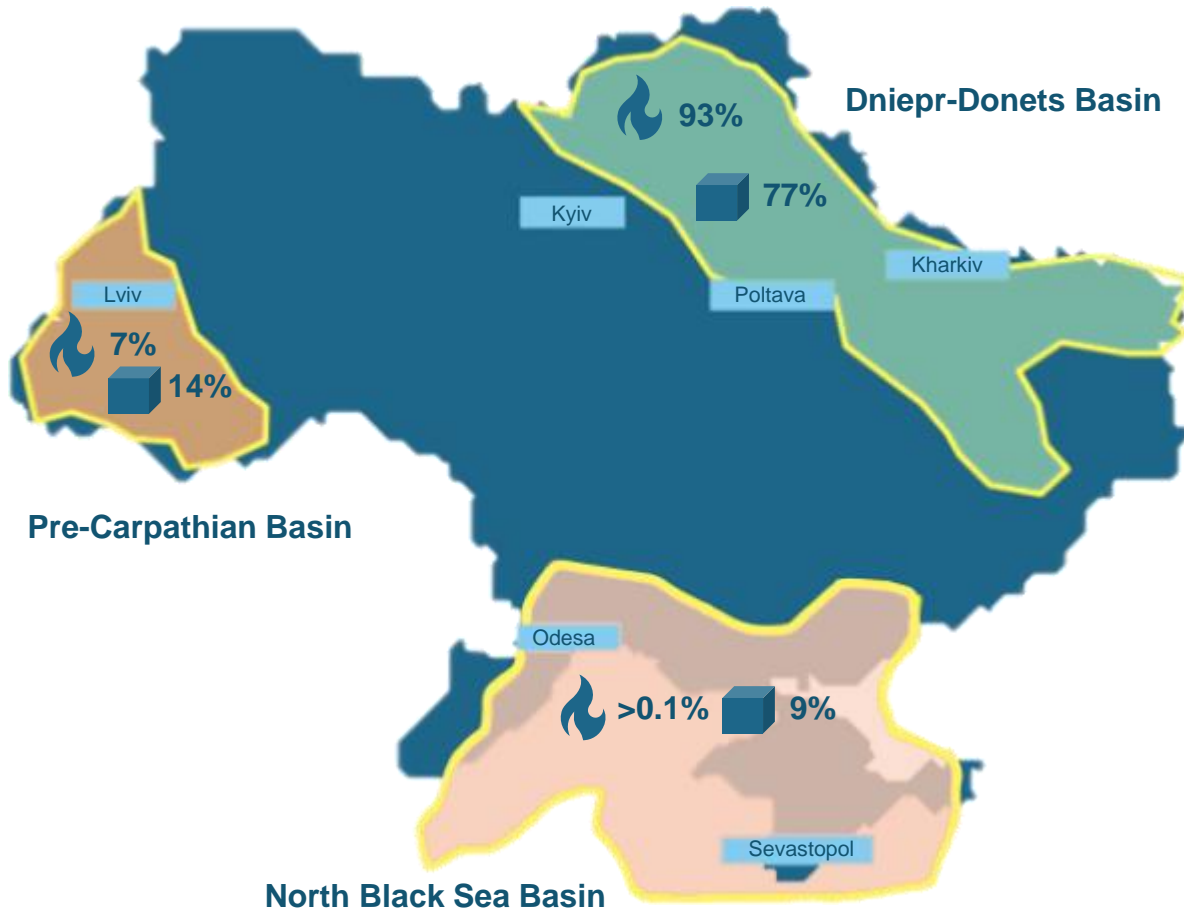
Association
of Gas Producers
of Ukraine

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

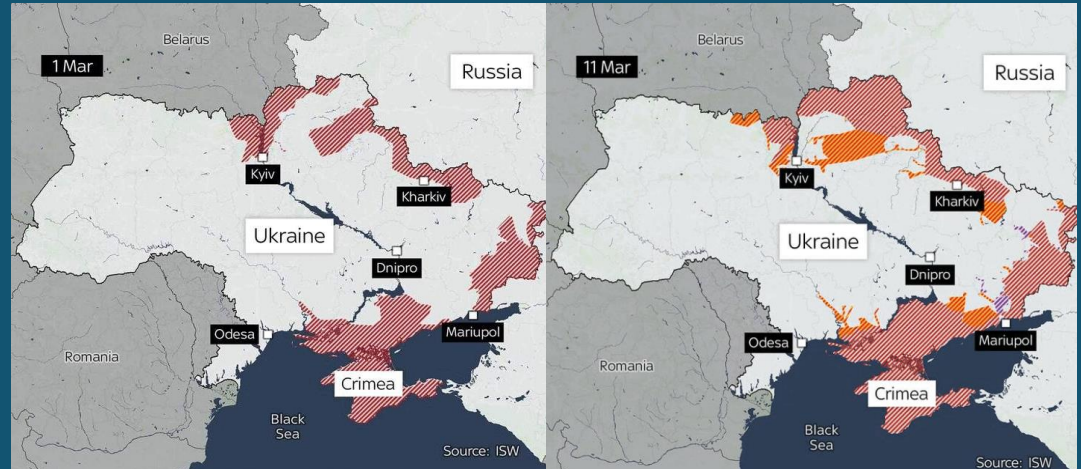
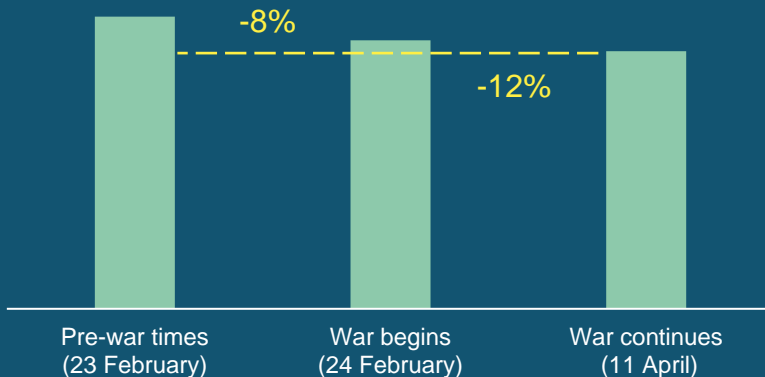


the share of natural gas booked reserves

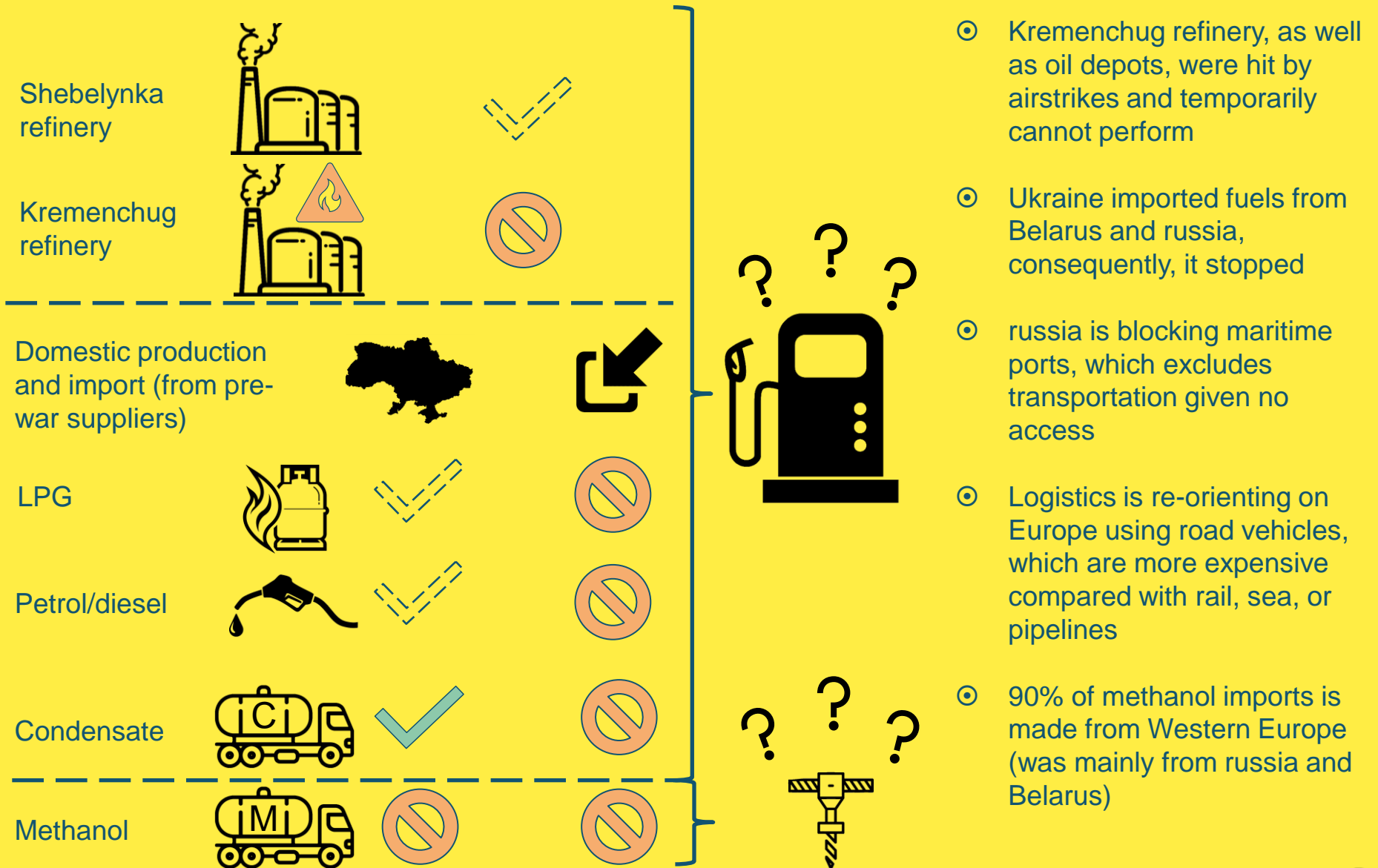
BUT AS WAR KNOCKED ON OUR HOUSES, THE MAIN GOAL WAS TO SAVE THE INDUSTRY AND SURVIVE

- 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



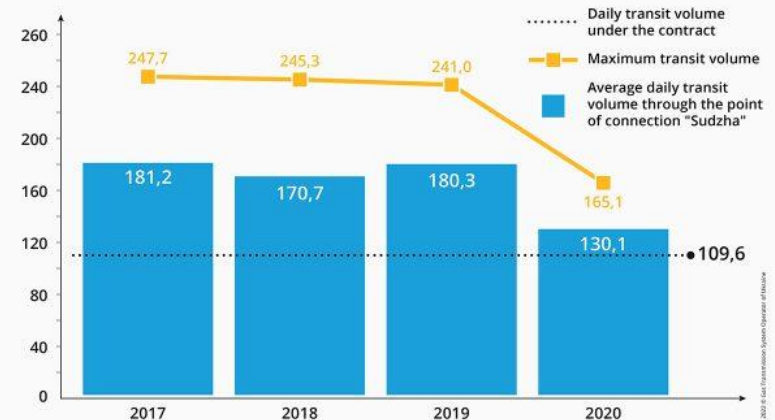


THE OCCUPIERS INTERRUPT GAS TRANSIT VIA UKRAINE

- On the 10th 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

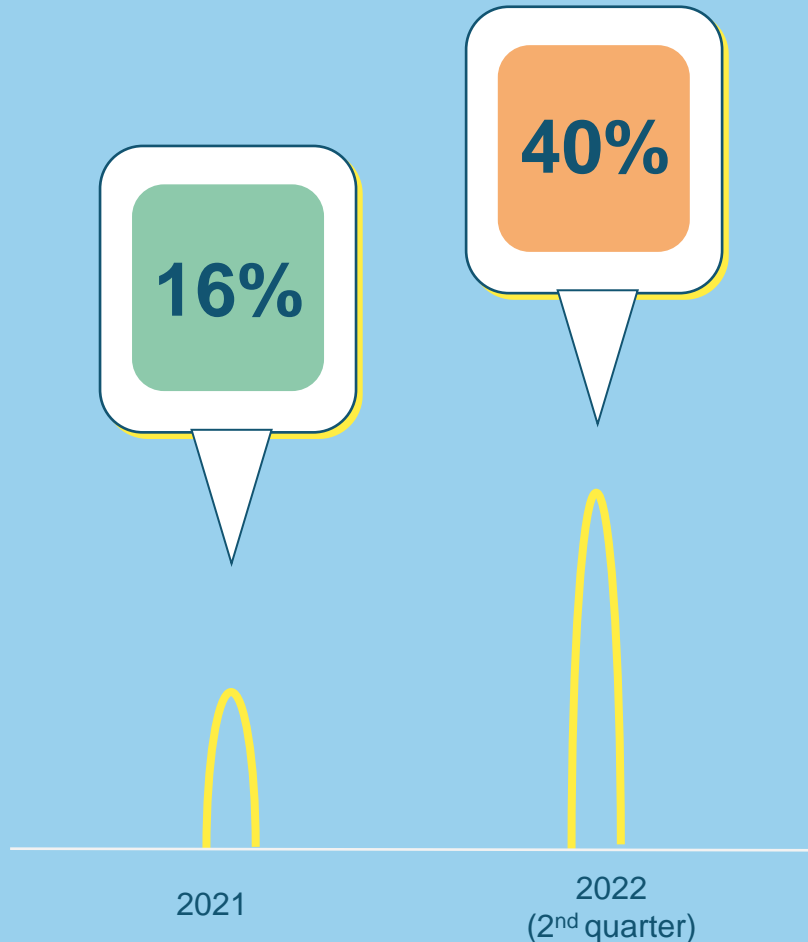


Daily transit volume through the point of connection "Sudzha"
Million cubic meters (mcm)



UKRAINE HAVE CHANGED ITS TAXATION FOR NATURAL GAS PRODUCTION

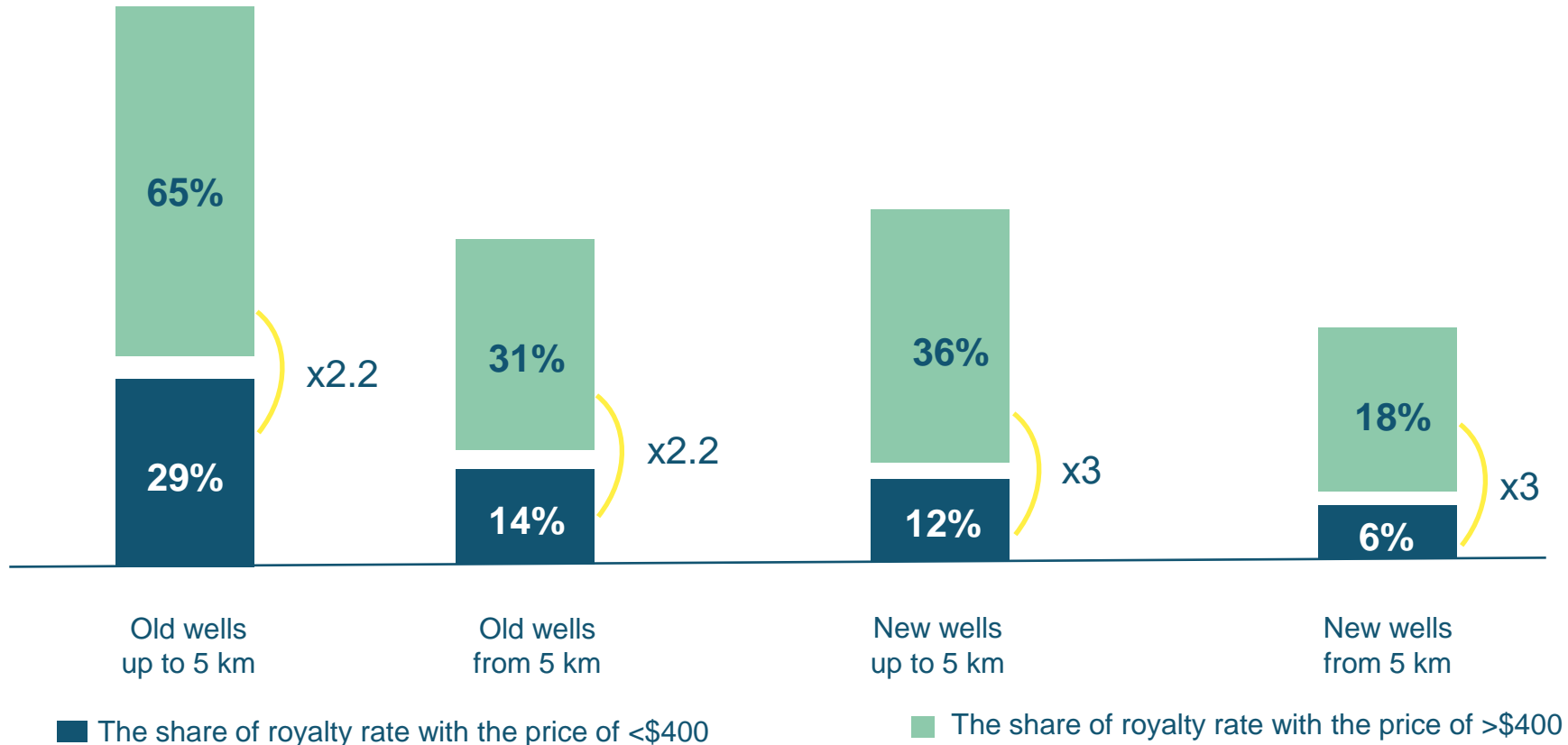
The average royalty rate for every thcm
of produced natural gas



- ⦿ 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



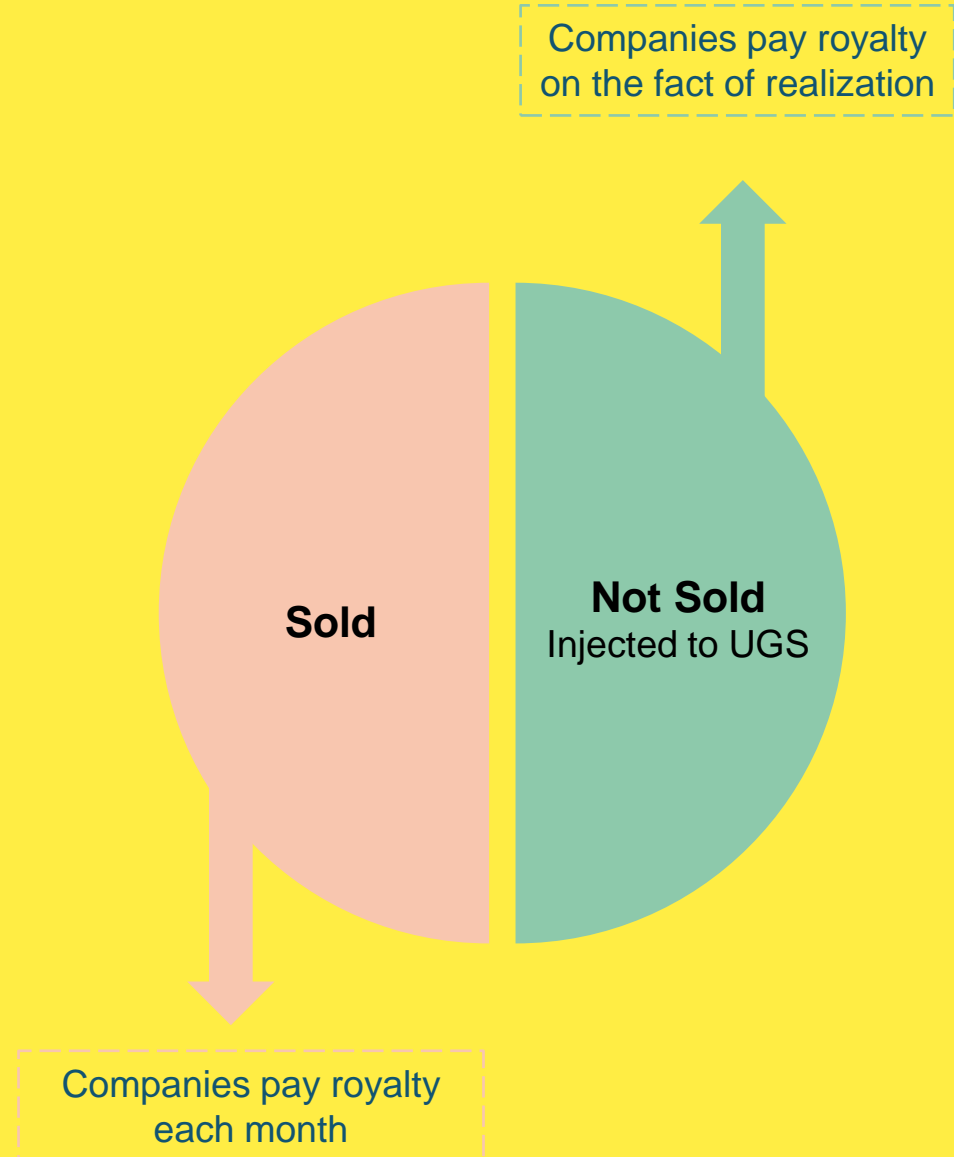
If natural gas price is less than \$150, the 0.5 coefficient is applied for royalty rates (29/14%, 12/6%)

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!