

# DIGEST

4<sup>TH</sup> QUARTER OF 2020



Association  
of Gas Producers  
of Ukraine

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Extensive challenges for the oil and gas industry in 2020 were complex and unpredictable. A long-running Covid-19 pandemic, the economic crisis and the record decline in hydrocarbon prices have dealt a severe blow to producers all around the world. International oil and gas companies have suffered billions in losses, reduced investment and optimized projects. A domestic oil and gas industry has experienced similar difficulties. Nevertheless, the level of production in Ukraine remained stable, and some members of our Association even been able to increase their production output.

However, despite all the difficulties of 2020, the end of the year was distinguished by few bright highlights. Among them the signing of seven PSAs, as well as the granting of rights to Naftogaz to explore the Black Sea shelf and one of the largest in the country Yuzivska gas block. I am convinced that the start of these large-scale projects, in which international partners may be involved in the future, will become a prerequisite for a new stage in the development of the industry.



**Oleksandr Romanyuk,**  
Chairman of the Board of the  
Association of Gas Producers of  
Ukraine, Director of the Naftogaz  
Exploration and Production Division

## 7 production sharing agreements were signed

On December 31, with the participation of the Prime Minister of Ukraine Denys Shmygal, production sharing agreements for 7 oil and gas blocks were officially signed.

The Prime Minister noted that the signing of the PSAs will demonstrate international investors that Ukraine is attractive to invest and that the government fulfills its commitments. In addition, Denys Shmygal added, that this is an extremely important step for energy independence and energy self-sufficiency, as the development of these blocks will help significantly increase gas production.

It shall be recalled that PSA tenders took place in 2019. Among the winners are: Ukrgasvydobuvannya (Naftogaz Exploration and Production) will develop Buzivska, Berestyanska, Balakliyska and Ivanivska blocks), DTEK Oil&Gas (Zinkivska block), Geo Alliance Group (Sofiyivska block), Zakhidnadraservis (Uhnivska block).



## Naftogaz will develop Yuzivska block as well as the Black Sea shelf

NJSC Naftogaz of Ukraine and NJSC Nadra Ukrainy signed a contract of sale of a 99% stake in the charter capital of Nadra Yuzivska LLC. This company has the right to explore and extract hydrocarbons at Yuzivska block, that located in Donetsk and Kharkiv regions. After the completion of all official procedures, Naftogaz will be able to begin works at the block and join the implementation of the production sharing agreement.

The Government also provided Naftogaz with the opportunity to obtain licenses for geological exploration with further development of fields on the continental shelf of Ukraine. The perspective and promising shelf resources in the western part according to various assessments are about 1-2 trillion cm of gas and more than 1 trillion tons of oil with gas condensate, with the possibility of annual production in about 10 billion cm of natural gas.

## The adoption of the Draft Law No.3176

The Verkhovna Rada of Ukraine supported the Draft Law No. 3176 'On Amendments to the Law of Ukraine 'On Public Procurements' related to the Procurement of Natural Gas'. The document provides a quick and prompt settlement of the gas balancing issue, and will also allow the GTS Operator, if necessary, to purchase gas on a daily basis for production and technological costs as well as for balancing. The creation of a trading platform where customers can balance natural gas remnants will ensure the development of a liquid gas market in Ukraine.

**Significant growth in exploration and production of own subsoils** is one of the priority directions of economic evolution until 2030, identified by the Government.

The Verkhovna Rada has **registered a Draft Law No. 4344** regards facilitating the development of the oil and gas industry, which, in particular, will improve the procedure for conducting PSA tenders.

DTEK Oil&Gas **drilled a new well at Machukhske field** with an overall depth of 5.270 m, that was built a month earlier than planned – in 136 days.

Naftogaz has **discovered a new gas condensate field in Poltava region** with 2 bcm of prospective reserves and resources and 200 million cm of explored gas.



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## Average daily gas production in 2020, mcm

Ukraine produced 20.2 bcm of natural gas since the beginning of the year, which is 2% less than the last year.

The economic crisis caused by Covid-19 pandemic has led to a record downturn in prices for hydrocarbons, reduction in investment, and consequently, a decrease in production.

Nevertheless, independent gas producing companies were able to raise production output by 6% due to previous periods investment.

## Wholesale gas price in 2020, \$/thousand cm, net of VAT

The prices on natural gas have shown a regular seasonal increase at the end of the year. However, several lockdowns and upcoming restrictions associated with Covid-19 pandemic, remain among the main factors influencing the prices for hydrocarbons.

Eventually, the wholesale average price at the European TTF hub, including the cost of transportation, amounted to UAH 4084 (\$151), which is 20% less compared to the previous year. Average customs value of thousand cm of imported gas was UAH 3879 (\$144), dropping by 32%.

UEEX's price for natural gas on 100% prepayment basis, showed a decrease by 34% compared to the same period last year, and amounted UAH 3666 (\$136)

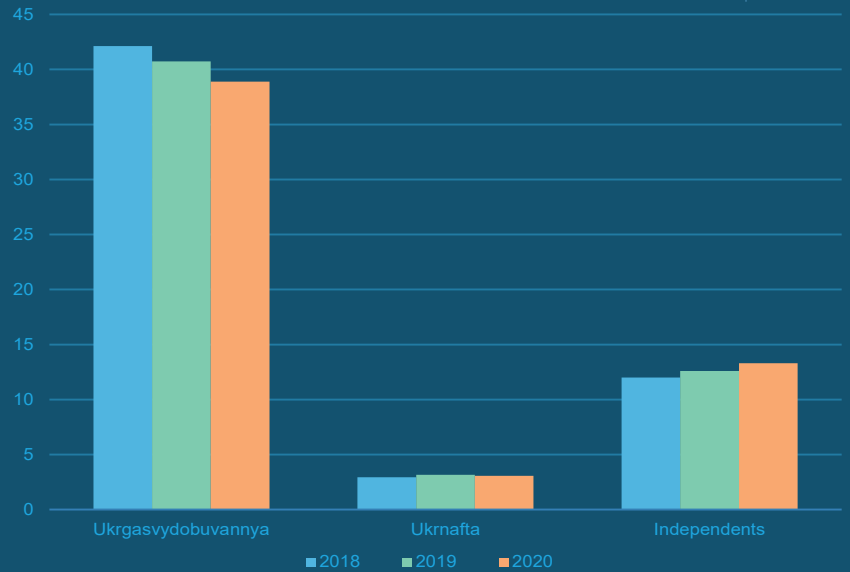
## Number of active drilling rigs in Ukraine and Europe, pcs.

In a result of continuous turbulence and a record-low prices in 2020, companies were forced to cut a capital investment into the industry.

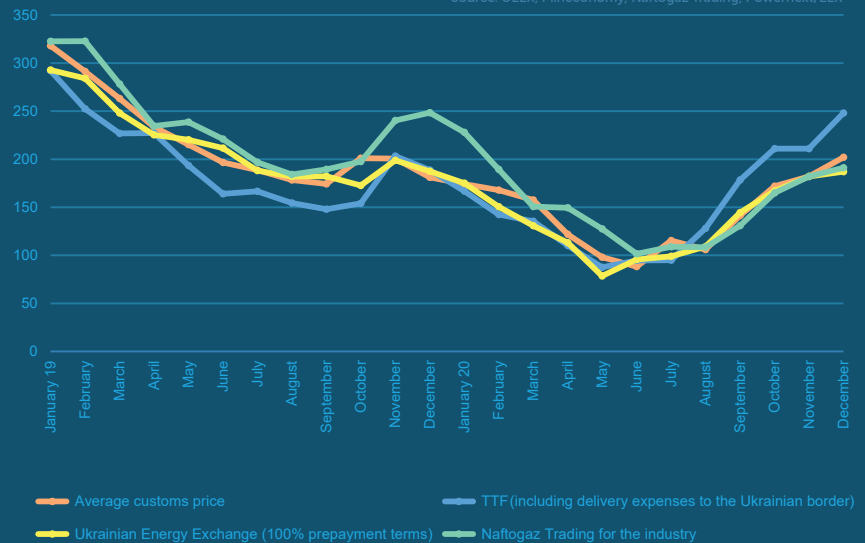
A crucial decline in drilling of new wells became a key tendency of the year, which negatively affected a number of active drilling rigs.

At the same time, the increase in price for hydrocarbons at the end of the year should become a main assumption of forward intensification of service markets in the world, as well as in Ukraine.

Source: GTSOU operational data



Source: UEEX, Mineconomy, Naftogaz Trading, Powernext/EEEX



Source: AGPU, Baker Hughes Rig Count

