

# DIGEST

1<sup>ST</sup> QUARTER OF 2021



Association  
of Gas Producers  
of Ukraine

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The industry is gradually recovering after a really tough year of 2020, but still, it is too early to talk about a full return to the previous level of business activity. The state support is vital for increasing gas production in the sector, which is a key filler of the state budget. First of all, it is about fiscal incentives to increase investment in exploration and production of hydrocarbons. Moreover, there is a need to improve the regulatory environment, using the best international practices, and to simplify subsoil users' access to land parcels. The settlement of issues that cause an influence on the effectiveness of the implementation of production sharing agreements also remains topical.

Modernization of specific legislation will contribute to the development of the gas industry and the rapid development of large-scale oil and gas fields. Undoubtedly, coordinated and systematic interaction between business and government is more than important in achieving a strategic goal – bringing closer the energy independence of the country.



**Igor Shchurov,**  
General Director of  
DTEK Oil&Gas

## Issuance of the first licenses according to the signed PSAs

The State Service of Geology and Subsoil of Ukraine granted the first 5 licenses in accordance with production sharing agreements signed at the end of 2020. In a result, Naftogaz Group and DTEK Oil&Gas received subsoil use rights.

The relevant companies plan to invest more than UAH 4.6 billion in development of oil and gas fields during the first five years. According to the agreements, it is expected to conduct 3D seismic exploration with acreage of 1.6 thousand sq km. and drill at least 15 exploration wells at the first stage.



## 4 oil and gas blocks are put up for e-auctions

Blocks located in the Poltava Oblast (Sherbakivsko-Shkurupivska block), Kharkiv Oblast (Yuliivske field), Ivano-Frankivsk Oblast (Luchkivsko-Berezivska and Shidno-Kosmatska blocks).

Duration period of licenses is 20 years. E-bidding will take place on April 21.

## The Government has approved the National Economic Strategy until 2030

Among the key objectives is to meet 100% of Ukraine's natural gas needs through its own production. In this purpose, it is planned to implement a number of important initiatives to increase gas production:

- introduction of an incentive tax regime for enterprises operating on new and restored wells, as well as the adoption of regulations on the rules of restoration of activity of preserved and abandoned wells,
- introduction of preferential regime to stimulate the production of hard-to-develop and unconventional hydrocarbon deposits,
- setting an incentive rental rate for the production of hydrocarbons (oil and condensate) within five years from the date of drilling a new well,
- bringing the tax rate of rent for oil and gas production to the European average level,
- improvement of mechanisms for implementation of production sharing agreements,
- liberalization of circulation of licenses,
- introduction of public-private partnership incentives for the development of innovative exploration and production technologies.

The Government has decided to **postpone the entry into force** of the Technical Regulation on the quality of liquefied natural gas **for 3 months** (until May 5, 2021).

**Enhancement of gas production and enlargement of the base of explored reserves**, as well as strengthening energy security are among the key goals of the Naftogaz Group in accordance with the Strategy until 2025.

The management of the Association - Chairman of the Board Oleksandr Romanyuk and Executive Director Artem Petrenko are **considered as one of the TOP personalities of the industry in 2020** according to the relevant publishing house 'Oil and Gas of Ukraine'.

The President of Ukraine **signed the Law No. 3176** "On Amendments to the Law of Ukraine 'On Public Procurement' on Natural Gas Procurement"



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## Average daily gas production in 1<sup>st</sup> quarter, million m<sup>3</sup>

In the first quarter, Ukraine produced 4.86 bcm of natural gas, which is 5% less than a year earlier.

The reduction in production is primarily due to a record low prices and unfavorable conditions influenced drilling of new gas wells during 2020.

Both the national and private companies have decreased their own production rates.

## Wholesale gas price for the 1<sup>st</sup> quarter, \$/thousand m<sup>3</sup>, net of VAT

In early 2021, the weighted average gas price at European hubs showed a decline for the first time.

Hence, 8 month of growth were replaced by the expected reduction in February. The reasons for such drop explained by high gas withdrawals from underground storages, weather conditions and gas oversupply on the market.

The wholesale average price at the European TTF hub, including the cost of transportation, amounted to UAH 7778 (\$278), which is 88% more compared to the previous year.

The average customs value of thousand cm of imported gas in the first quarter was UAH 6603 (\$236), which is 32% more than the same period last year.

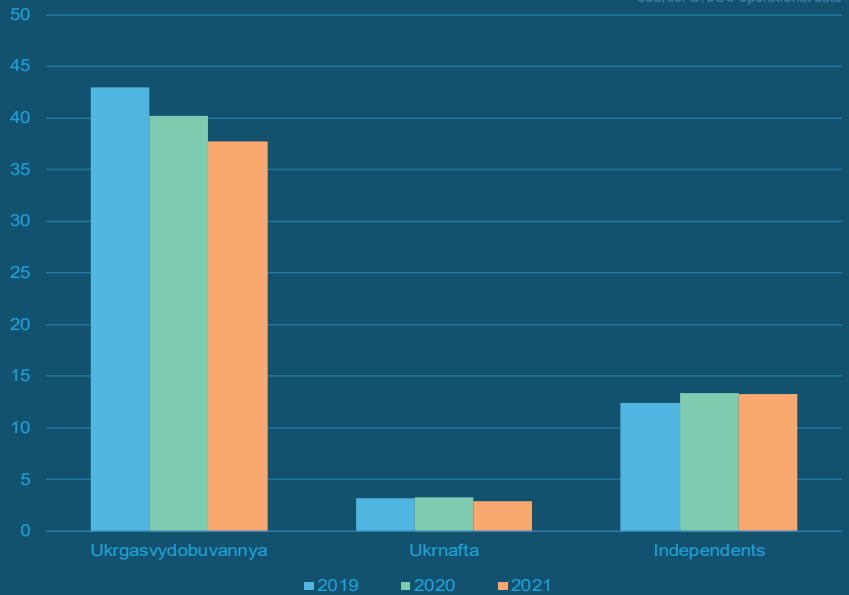
## Number of active drilling rigs in Ukraine and Europe, pcs.

Seasonally increasing price in winter have had a positive effect on the amount of capital investment in drilling of new wells in Ukraine.

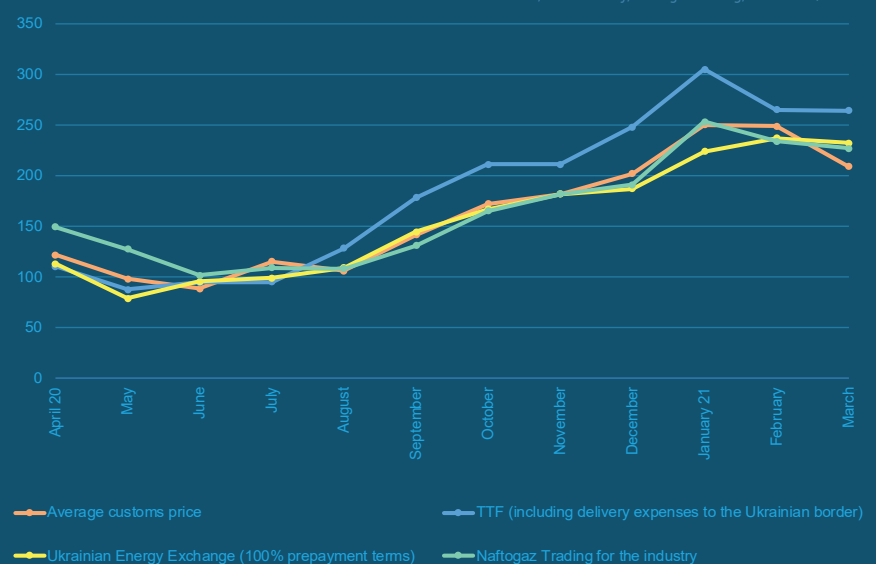
Price hikes and the absence of negative fluctuations may contribute to the continuation of the four-month growth.

At the same time, the unpredictable situation with the impact of the COVID-19 pandemic may be an obstacle to a stable recovery of drilling performance in 2021.

Source: GTSOU operational data



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



Source: AGPU, Baker Hughes Rig Count

