



Association
of Gas Producers
of Ukraine

United with the EU: How Ukraine is developing the gas market during the war

Vienna
September 2023

Map of Military Operations in Ukraine as of September 23, 2023



Map by George Barros, Kateryna Stepanenko, Noel Mikkelsen, Daniel Mealie, Thomas Bergeron, and
Phill Belcher - © 2023 Institute for the Study of War and AEI's Critical Threats Project

582 days of Russian madness

- According to the Kyiv School of Economics, as of the beginning of August, the total direct losses inflicted on Ukraine's infrastructure due to the war amount to \$150.5 bln, of which \$55.9 bln represents housing losses
- Regular rocket and drone attacks, the destruction of the KHPP, strikes on ports, the energy system, the Oil&Gas sector, and other industries, as well as the occupation of the ZNPP, among many other crimes, reveal the true face of the enemy, against which we all stand united
- Already in September, Russia has continued the energy terror campaign it initiated last fall. The occupiers have targeted infrastructure, factories, logistics routes, and fuel storage facilities over the past three weeks
- Despite these challenges, Ukraine is much stronger today than last year. We understand what the enemy is preparing for and the threats or challenges that lie ahead for all of us

DESPITE BRUTAL CIRCUMSTANCES, PREPARATIONS FOR THE AUTUMN-WINTER SEASON ARE ON TRACK



- ⦿ For the first time in Ukraine's history, it plans to go through winter without imported resource
- ⦿ Gas consistently flows via Ukraine's GTS under "customs warehouse" and "short-haul" modes
- ⦿ However, Russia regularly reduces transit volumes. In the first eight months, 9.54 bcm were transported (-38% compared to 2022, -68% to 2021)

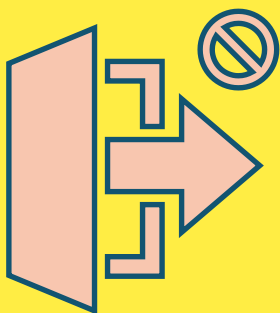


- ⦿ On September 19, the target level of reserves set by the Cabinet of Ministers of Ukraine was reached ahead of schedule
- ⦿ It is expected that by November 1, Ukraine's UGSs will have 16 bcm, of which 3 bcm will belong to non-residents
- ⦿ This is a promising preemptive trend that is also observed in Europe



- ⦿ It can be fairly stated that gas production has been successfully maintained
- ⦿ Moreover, state-owned companies are confidently increasing production, owing to new wells and the workovers of old ones
- ⦿ On the other hand, privates are preventing a decline. Everyone is working towards one goal – the victory

DUE TO OBJECTIVE REASONS, NATURAL GAS EXPORT REMAINS CLOSED

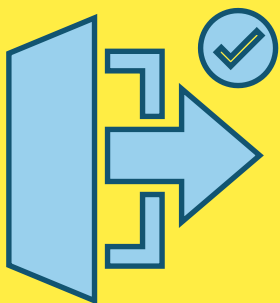


For gas of
Ukrainian origin

It has been temporarily banned since the beginning of the war due to its strategic importance

The restriction was prolonged in 2023 due to low demand and a surplus of resource in Ukraine

Further unblocking depends on market conditions and a balance analysis



For gas owned
by non-residents

The ban does not apply to gas stored under "customs warehouse" mode, meaning gas that does not cross the state's customs border

Ukraine adheres to its commitments and will not allow the expropriation of partners' resource while also keeping storage tariffs unchanged



Trust among partners is the key to success

Attractive terms and security ensure revenue

Approximately 20% of gas in underground gas storage facilities will belong to non-residents, which is a sign of security and trust

YET, EXPORT RESTRICTIONS DO NOT AFFECT GAS REALIZATION ON THE DOMESTIC MARKET

The PSO



Closed export does not impact the two pillars of the gas sales market since they are based on:



Transparent rules



Free pricing



Free market



Competitive demand



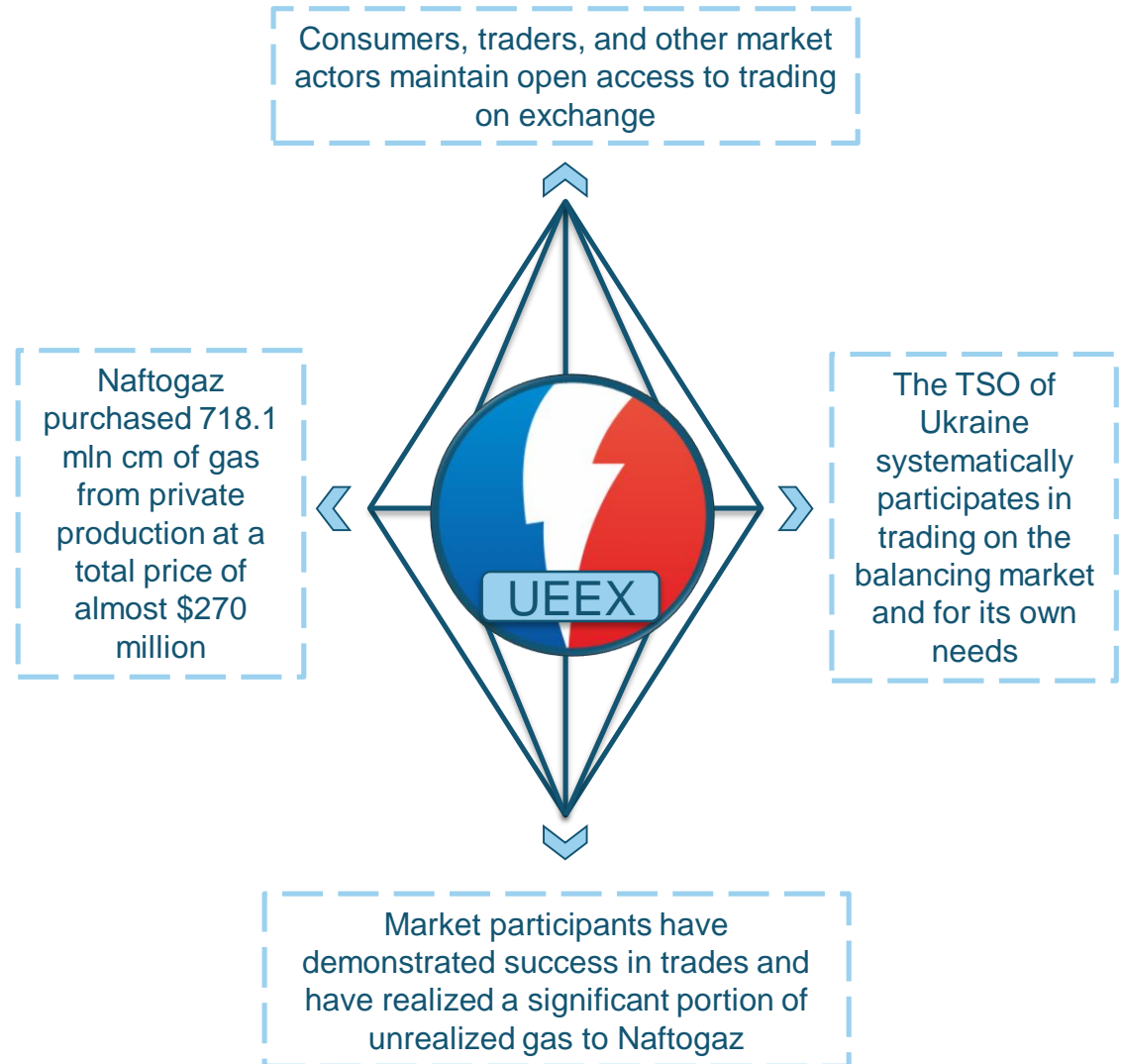
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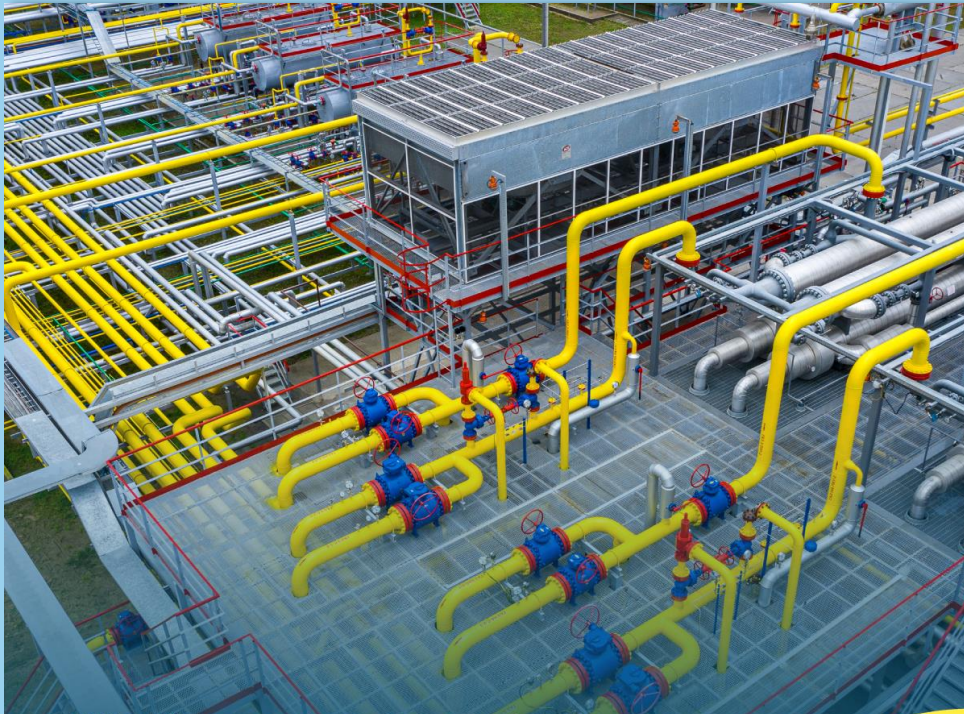
- Fair royalty and a justified, logical tax base incentivize industry development
- A surplus on the market and its closure have necessitated the use of internal independent indicators
- The development of the exchange and trading involving state-owned companies increases liquidity in the sector
- Implementing the short-term market and Regulation No. 312 has allowed the TSO of Ukraine to be more active
- Both domestic participants and non-residents, including traders, can conduct gas operations calmly and transparently

AS AN EXAMPLE – THE EFFECTIVE INITIATIVE TO PURCHASE GAS OF UKRAINIAN ORIGIN BY NAFTOGAZ

- The gas purchase initiated in late April on the Ukrainian Energy Exchange allowed the platform to be relaunched, yielding fruitful results
- The cooperation between state, producers, and traders has demonstrated its effectiveness and great outcome
- In particular, trading on the exchange has become one of the indicators for determining the tax base
- As a result, market liquidity has significantly increased, contributing to the development of exchange trading
- At the same time, the experience of the Energy Community and assistance in its further development are crucial in this matter



HOWEVER, THE WAR FORCES A TEMPORARY DEFERRAL OF CERTAIN NEW IMPLEMENTATIONS



The NERC has approved a draft decision on the deferral of the mandatory phase of introducing the balance neutrality fee by one gas year

- ⦿ Today's Ukrainian gas market is characterized by transparency and a swift response to challenges
- ⦿ The NERC (Regulator) is focused on active industry development, including the adaptation of European legislation
- ⦿ However, in the conditions of a full-scale war and constant shelling, at the initiative of the Association, the introduction of the balance neutrality fee has been preliminarily postponed
- ⦿ Its implementation would have harmed all gas market participants without exception
- ⦿ Therefore, the mandatory phase of its introduction is proposed to be postponed by one gas year



THE ASSOCIATION CONTINUES TO PROVIDE UPDATES ON THE MOST VITAL MATTERS



06
September 2023

UKRAINIAN AND EUROPEAN GAS MARKET NAVIGATOR (AUGUST 2023)

023
НЕВИЙ МОНІТОРИНГ АЗОВИДОБУВНОГО СЕКТОРУ (9/2023)

UA | EN
Association of Gas Producers of Ukraine

UKRAINE'S
NATURAL GAS INDUSTRY
DURING A FULL-SCALE WAR

2022

The Association's website is available by QR code below:



- Due to the war, access to information regarding production, consumption, logistics, drilling rates, and more has become restricted
- Bearing in mind all wartime constraints, the Association compiles a weekly Monitoring of the Oil&Gas industry with key sectoral news in Ukraine and worldwide
- Every month, we release the Ukrainian and European Gas Market Navigator, where we analyze the sector's main indicators
- At the end of 2022, the Association prepared a report on the performance of the gas production sector during the full-scale war, where publicly unavailable information was not utilized



THE TOUGHEST TIMES HAVE NOT BEEN A BARRIER TO OUR EFFICIENCY. TOGETHER, WE CAN DO ANYTHING!



- ⦿ The full-scale aggression has complicated our work roughly but has not destroyed the industry. Ukraine continues to adapt its legislation to European standards and implement reforms
- ⦿ A swift response to challenges and measured decisions allow us to increase the industry's liquidity and partner's trust with each passing day
- ⦿ It is crucial to maintain support and cooperation, as there is much ahead of us
- ⦿ Together, we will drive the enemy from our land and open a new chapter in Ukrainian gas production!

ONE VOICE OF THE INDUSTRY

92%

natural gas
production

9%

consolidated
budget tax revenues

26 thousand

jobs

