

PEC (PRODUCTION ENHANCEMENT CONTRACT) OVERVIEW

Phase 2

December 2021



EXPLORATION
AND PRODUCTION

Key terms of a typical PEC



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Short description: Development and operation of the brownfields (provision of the technical and managerial expertise and execution of works) by the contractor with the purpose of increasing production levels, while decreasing / limiting production costs through contractor's investment

Contract term: 15 years (+optional prolongation for another 10)

Title to reserves and production: Naftogaz

Fixed Assets: No transfer of assets title (as well as title to production and/or reserves) to the contractor, all assets created during the contract term to be transferred to UGV in the end of the contract

Operational Control: Contractor

Management: Joint. Naftogaz approves Work Program & Budget, Development Plan and other key decisions. Proposals made by the contractor

Compensation mechanism:

- Service fee: 2-stage \$/tcm tariff (baseline and incremental); incremental > baseline
- Service fee is the only compensation to the Contractor, and covers its CAPEX, profit share, OPEX and all other expenses
- Additional Expenditures To Be Reimbursed (AETBR) – UGV may request Contractor to make additional expenditures for actions which UGV responsibility by terms of Contract. In case if Contractor agree – such expenditures will be reimbursed on «cost+» basis

CAPEX:

- 100% financed by the contractor. Minimum Spend Obligations (MSO) guarantee for the first 5 years and on annual basis
- Detailed Work Program & Budget approved by Naftogaz annually

Objectives: Rejuvenate Naftogaz brownfields to achieve higher production and reserves growth than could be achieved internally, create long-term predictability over OPEX, free Naftogaz' technical and managerial attention and CAPEX from low-priority fields; reshape short-term investment Cashflow requirements into long-term operational cash outflow (increase ROCE); create internal benchmark for operations efficiency and QHSE standards

Tendering & proposal evaluation criteria

- Open tender with qualified participants based on technical and financial capability and high QHSE standards
- Winner will be defined basing on best proposal, which should include price criteria (lowest incremental tariff) and non-price criteria (e.g. incremental production, investment) evaluated through formula which will be provided before tender
- Baseline production, baseline tariff, and MSO defined by Naftogaz based on technical and financial due diligence of the fields and their historical costs and field development plans projections

4 clusters consisting of 35 fields were selected for PEC



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Total production of the 4 clusters makes 9% of overall UGV's gas production and 4% of 2P reserves, they also contribute 14% of all UGV's liquids production

Field	# of producing wells	Gas prod '20, mcm	2P gas reserves, mcm	Gas P/R 2020, %	Gas reserves depletion level, %	3C gas resources, mcm	Liquids prod '20, tons	Field staff* FTE	3D seismic done	Average well depth (m)
Cluster 1 (8 fields)	75	492	2 665	15,6%	88%	1 769	31 825	65	4 fields	3 478
Cluster 2 (13 fields)	136	239	2 089	10,3%	93%	2 373	18 107	65	1 field	2 582
Cluster 2 (3 fields)	66	484	4 079	10,6%	93%	156	4 834	45	0 fields	4 030
Cluster 4 (11 fields)	101	327	2 890	11,2%	82%	4 954	8 912	81	1 field	2 449
Total	378	1 542	11 723			9 252	63 678	256	6 fields	

*full organizational structure and list of staff will be available in dataroom and financial report

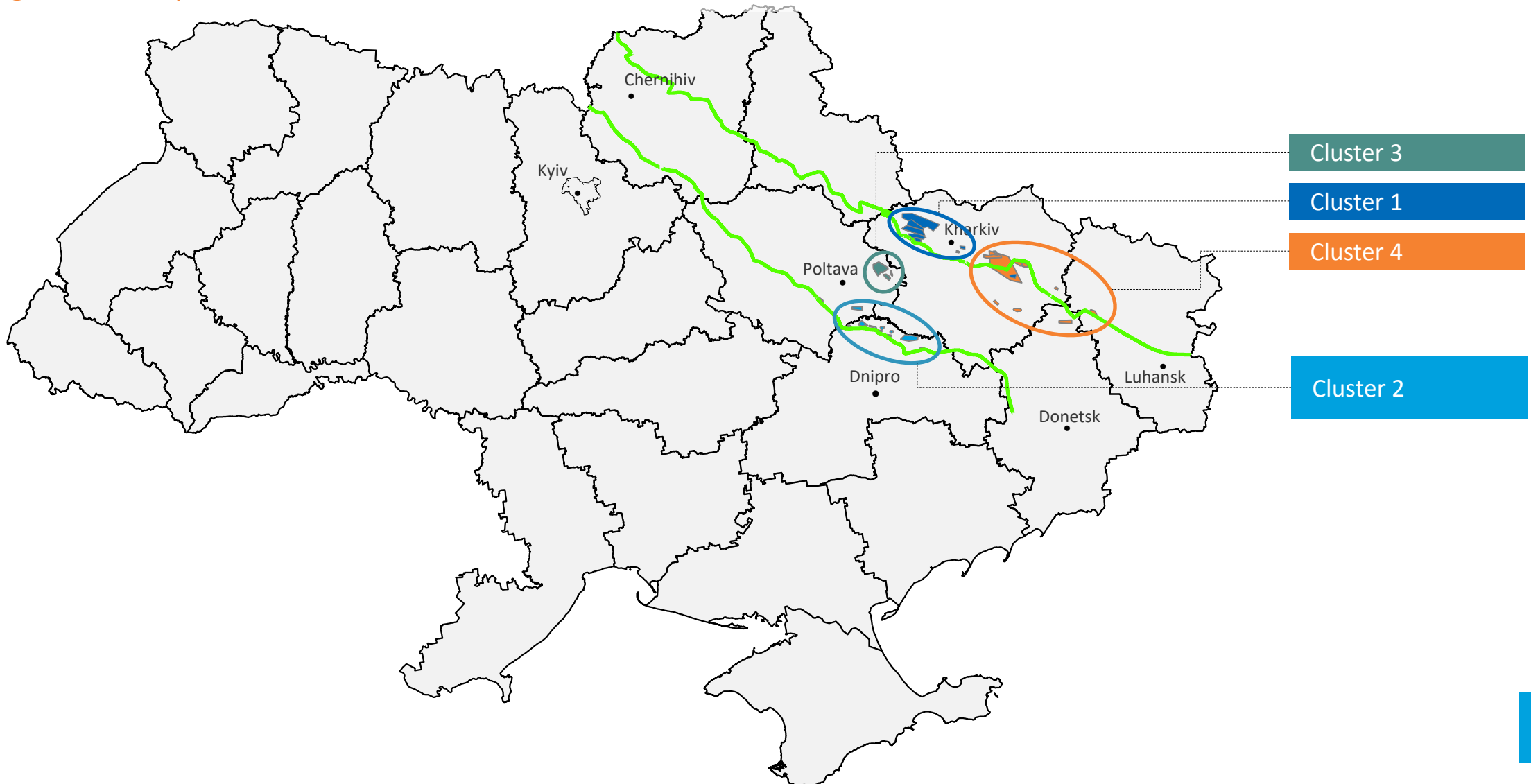
All of the proposed clusters are located in DDB



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Fields in all clusters are located in close proximity to each other, which makes them easy to operate from logistics standpoint



Dataroom will be provided for the companies after Memorandum signification

Technical

- Well stock data
- Well completion diagrams
- Well logs
- Record of well interventions/workovers
- Drilling reports
- Reservoir data
- Core data
- Water salinity reports
- Petrophysical data
- Pressure measurements
- Fluids properties
- Stimulation operations record
- Workovers record
- Incidents reports
- Infrastructure data

Financial

- Cost model
- Audited financial statements
- Cost accounts breakdowns
- Commercial agreements for hydrocarbons sales
- FA registers
- Annual budgets
- Management reports
- Accounting manuals, policies and procedures
- Own gas consumption reports
- Insurance data

HR

- Organizational charts
- Payroll / benefits / disciplinary data
- CLA
- Agreements with trade unions
- HR department structure
- Policies, procedures, manuals
- Information on pending litigation
- Certifications requirements
- Retirement plans

HSE

- Environmental audit materials
- Licenses
- Permits
- Policies, procedures, standards
- Manuals
- Incidents reports
- Authorities inspections reports

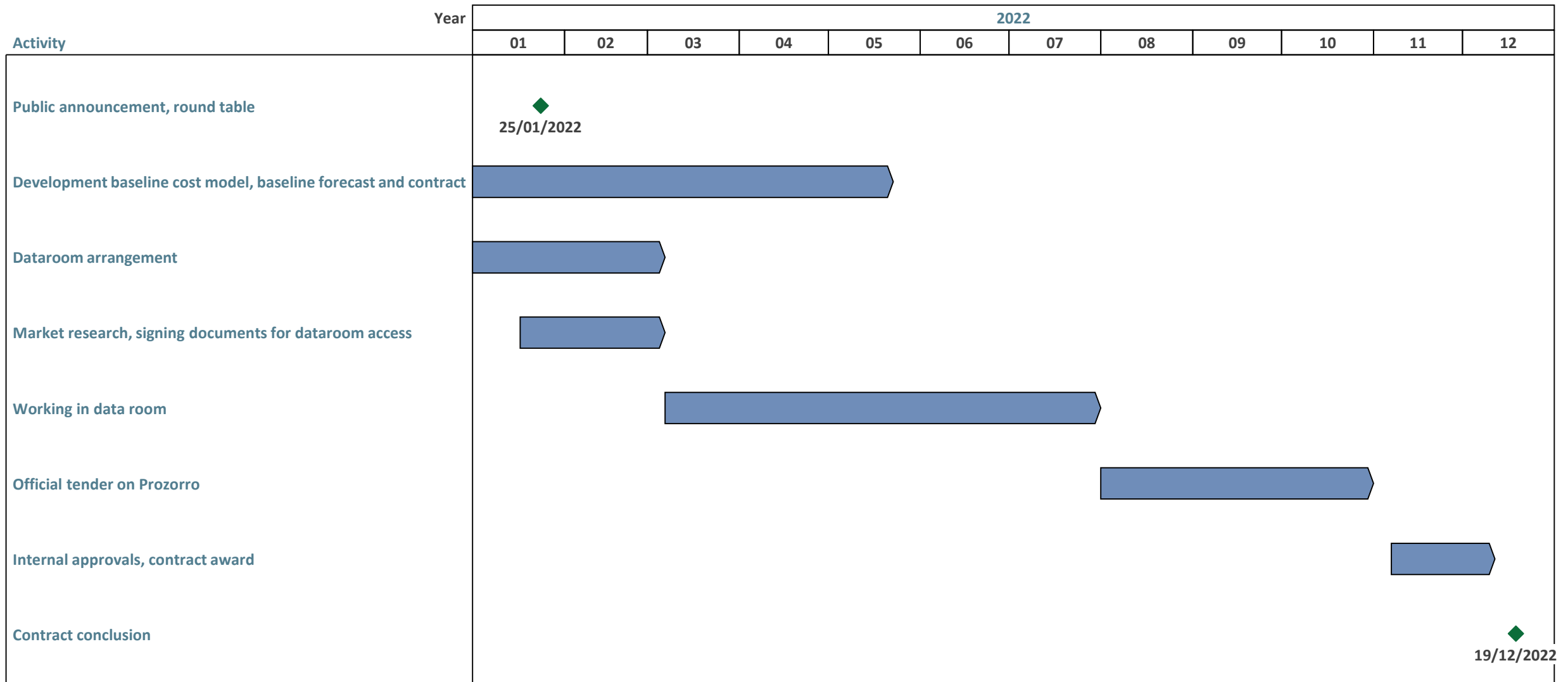
IT

- IT organization layout
- Applications map
- List of servers and key network equipment
- IT providers and contractors list
- Network diagram
- IT spending for the last 2 years and the 2019 budget
- Policies and procedures
- Brief description of IT users equipment

Project timeline: ~1 year from public announcement to contract conclusion



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Round table & public announcement

- Public announcement of UGV intention to conclude next PEC agreements;
- Presentation of general terms and conditions of future Contract;

Confirmation of interest from the market & memorandum signing

- Collecting letters of intent;
- Signing a memorandum with companies interested;
- In order to sign the memorandum and receive access to VDR participant shall provide a bank guarantee;

Market research, preparation of detailed technical specifications

- Providing access to the VDR with detailed information of the clusters;
- The period of studying the information is 6 months;
- The bidder shall provide the report stating possibility of cooperation with recommendations to the TOR;

- Qualification is based on the criteria of experience, personnel, reputation and financial capacity;
- TOR prepared on previous stage and basic information necessary for decision-making is available to participants;

Public tender announcement and qualification of participants

- Each cluster is a separate procurement on Prozorro;
- The procedure is a classic open bidding;
- The winner is defined basing on a formula that takes into account the size of tariff and the amount of incremental production suggested in the participants proposal;

Bidding and selection of the winner

Contract execution

Experience

- PEC-type relevant partnerships (including risk-based service contracts) over last 10 years with annual production under operatorship at or above the level of relevant cluster (or)
- Annual production under operatorship at or above the level of relevant cluster

Financial conditions

- Prove of financial capability (e.g. Debt/EBITDA and/or OCF meet certain threshold)
- Submit the bid bond: 0,5% - 3% of the Contract value

Personnel

- Main domain functions covered in-house. Availability of experienced professionals in key functions – G&G, reservoir management, production engineering, workovers, well interventions, drilling, etc.

Reputation

- No current litigation for HSE law violation