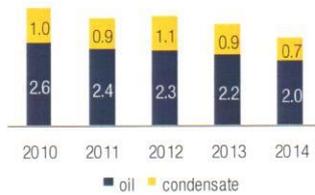


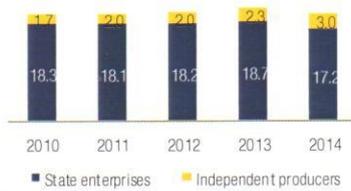
## Energy sector overview

### Oil production dynamics, mn tonnes



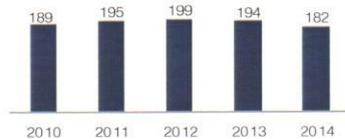
Source: Ministry of Energy of Ukraine

### Gas production, bn cubic meters



Source: Ministry of Energy of Ukraine

### Electricity generation, TWh



Source: State Statistics Committee of Ukraine

Most of Ukraine's primary energy consumption is fueled by natural gas (about 35%), coal (35%), and nuclear (20%). Only a relatively small portion of the country's total energy consumption is accounted for by renewable energy sources. According to the EIA, Ukraine has 39 trillion cubic feet (tcf) of proven natural gas reserves. On top of this, the EIA estimated that Ukraine's shale gas reserves could amount to 42 tcf. Notwithstanding, Ukraine has been importing more than half of its natural gas needs from Russia, while under-investing in the exploration of its own gas reserves. Furthermore, Ukraine is considered as a country with one of the highest use of energy per unit of economic output (twice that of Russia and ten times that of the OECD average).

Only in 2014, after the deterioration of political relations with Russia, the Ukrainian government decided to diversify its supplies of natural gas, commencing imports from the EU via reverse gas flows. Last year, Ukraine's natural gas consumption fell by 19% to about 40 billion cubic meters (bcm), while the share of Russian gas in total consumption decreased to 36%. According to the recent statements of the Ukrainian government, the country will not import more than 30% of its total gas consumption from one source.

In 2014, the country produced 20.2 bcm of natural gas (-4% y/y) and 2.7 mt of oil and condensate (-8% y/y). While the majority of the production was attributed to state-owned companies, independent producers showed the most impressive growth in terms of production volumes (natural gas: +27% y/y, oil: +2% y/y). The domestic production was also negatively affected by the annexation of Crimea by the Russian Federation (Ukrgezbydobuvannya, the largest gas producing company, had significant gas producing assets in Crimea) and the conflict in Eastern Ukraine.

It is worth noting that in August 2014 the Ukrainian parliament increased the royalty rates for oil and natural gas supplied to the industry to 45% and 55%, respectively. The move was criticized by the majority of experts as detrimental to the development of the industry. The Ukrainian government has already acknowledged this fact, and intends to review the royalty rates soon.

Currently, Ukraine's energy independence and energy efficiency is at the top of the government's agenda. Therefore, we might expect increased attention to renewable energy projects, energy savings, and developing the country's own resources.

The situation with Ukraine's energy generation sector could be characterized as "critical" in 2014. Due to the shortage of coal, which was mostly produced on the territory that is now controlled by the pro-Russian militants, the Ukrainian thermal power plants (TPPs) were forced to decrease production of electricity and import coal from abroad. As a result, the country's share of electricity produced by nuclear plants increased to about 50%, while the cost of production of thermal electricity exceeded tariffs. We envision that the Ukrainian government will eventually increase the electricity tariffs for the population and deregulate the sector, which should provide enough incentives for foreign investors to consider acquiring the government's stakes in the largest energy generating companies.