

NEWS ALERT – 31 May 2012

Dear Colleagues,

We are very pleased to share with you the attached English and Russian pre-view versions of Dr. Irina Paliashvili's most recent article on the dynamic developments and new investment projects in the oil & gas upstream sector. The article will be published shortly in full version in English in OGEL <http://www.ogel.org/about-author-a-z-profile.asp?key=593> and in Russian in OilGasLaw Journal/Russia and OilGasLaw Journal/Kazakhstan <http://www.lawtek.ru/dossier/persons/28079.html>, as well as posted on our website at http://www.rulg.com/publications_resources.asp

Oil & Gas and Production Sharing Agreements have been one of our core practices for twenty years, and we are very pleased that after many years of passive, and sometime hostile, attitude by the Government of Ukraine ("GOU") towards investment in upstream sector, the developments are moving ahead incredibly fast! In fact so fast that after the article went to publication a week ago, we already need to provide very important updates in this News Alert.

Analyzing the latest development in the oil & gas sector Irina observed that it was the most dynamic in the past 20 years: a new, less attractive, regime with expressed preferences for national companies is offered by GOU, but compared to previous years it carries real investment opportunities. Although the traditional Licensing Regime is still suppressed by the archaic and burdensome legal and regulatory regime and the lack of Subsoil Licenses offered by GOU, the Production Sharing Agreements ("PSA") opportunities are offered at back-to-back tenders.

While recently completed onshore Olesska and Yuzivska PSA tenders are covered in the article, two new Black Sea offshore tenders have been just announced by Cabinet of Ministers Decrees 454 and 455 published on 29 May: Skifska and Foroska Subsoil Areas of the Black Sea deep-sea shelf. The GOU did not follow its most recent requirement for a "local partner" for these two tenders, but instead requested a very large "signature bonus" of minimum of UAH 2.4 billion (approximately \$ 300.3 mln.) for each of them. As in previous PSDA tenders, the maximum share of cost recovery production is set at 70%. The State share in the profit production must be at least 20%.

The PSA tender for Slobozhanska onshore area (shale gas and other hydrocarbons) is expected soon. This tender will probably look similar to Olesska and Yuzivska tenders and will feature the "local partner" requirement.



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