



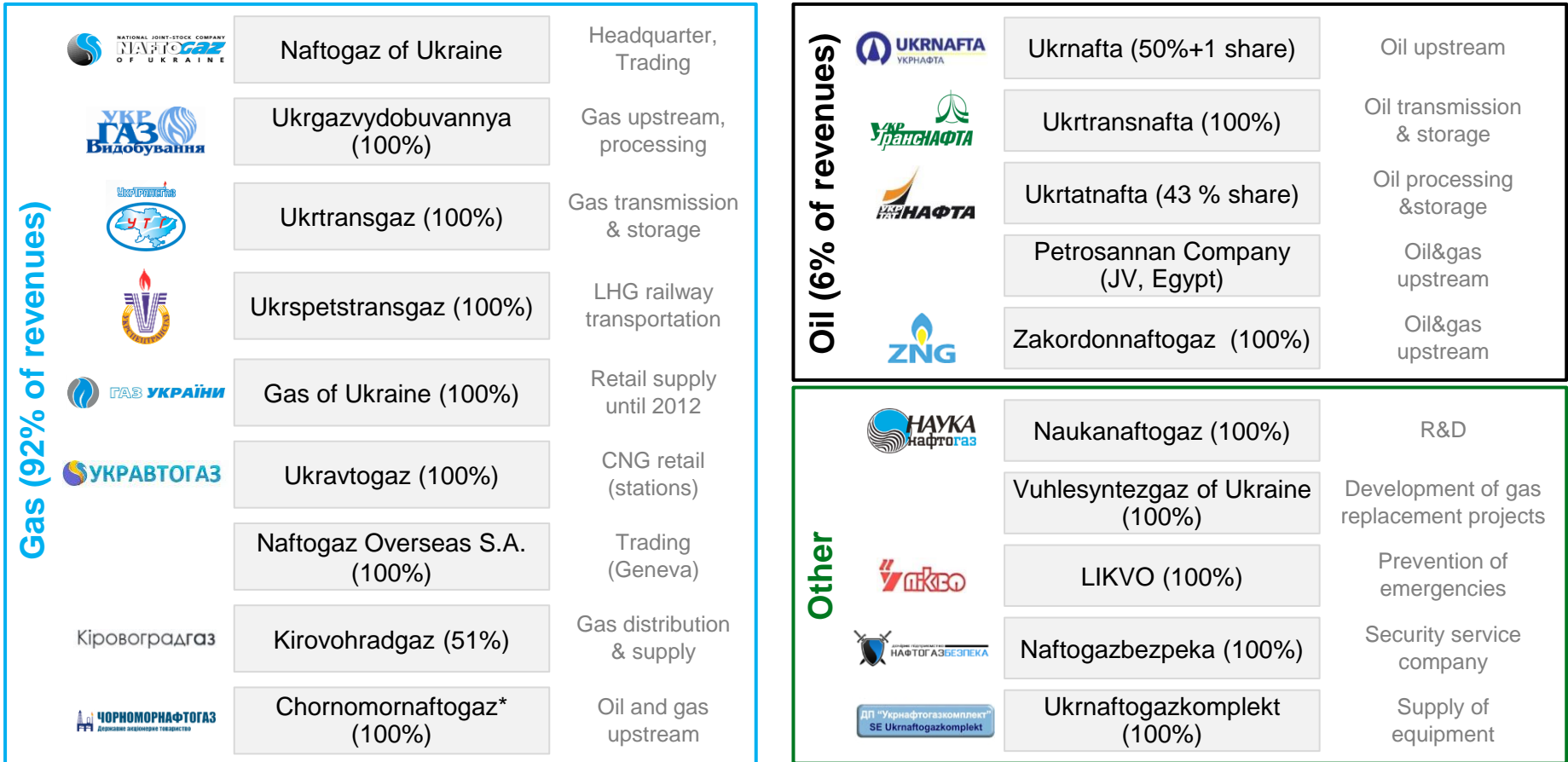
NATIONAL JOINT-STOCK COMPANY
NAFTOGAZ
OF UKRAINE

Drive for greater transparency and modernization in Ukrainian gas market

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Naftogaz Group



• In order to facilitate strategic analysis, our assets could be attributed to two main value chains – natural gas and oil.

* resulting from occupation of Crimea by Russian Federation in Q1 2014, Naftogaz has lost control over the assets of Chornomornaftogaz



Diversification and security of supply

- 2.4 times reduction of gas imports from Russia
- Stable gas supplies for Ukraine and the EU



Gas market reform

- 3EP-compliant gas market law
- Deregulation of commercial market
- 7.5 times growth in private imports



Operating efficiency

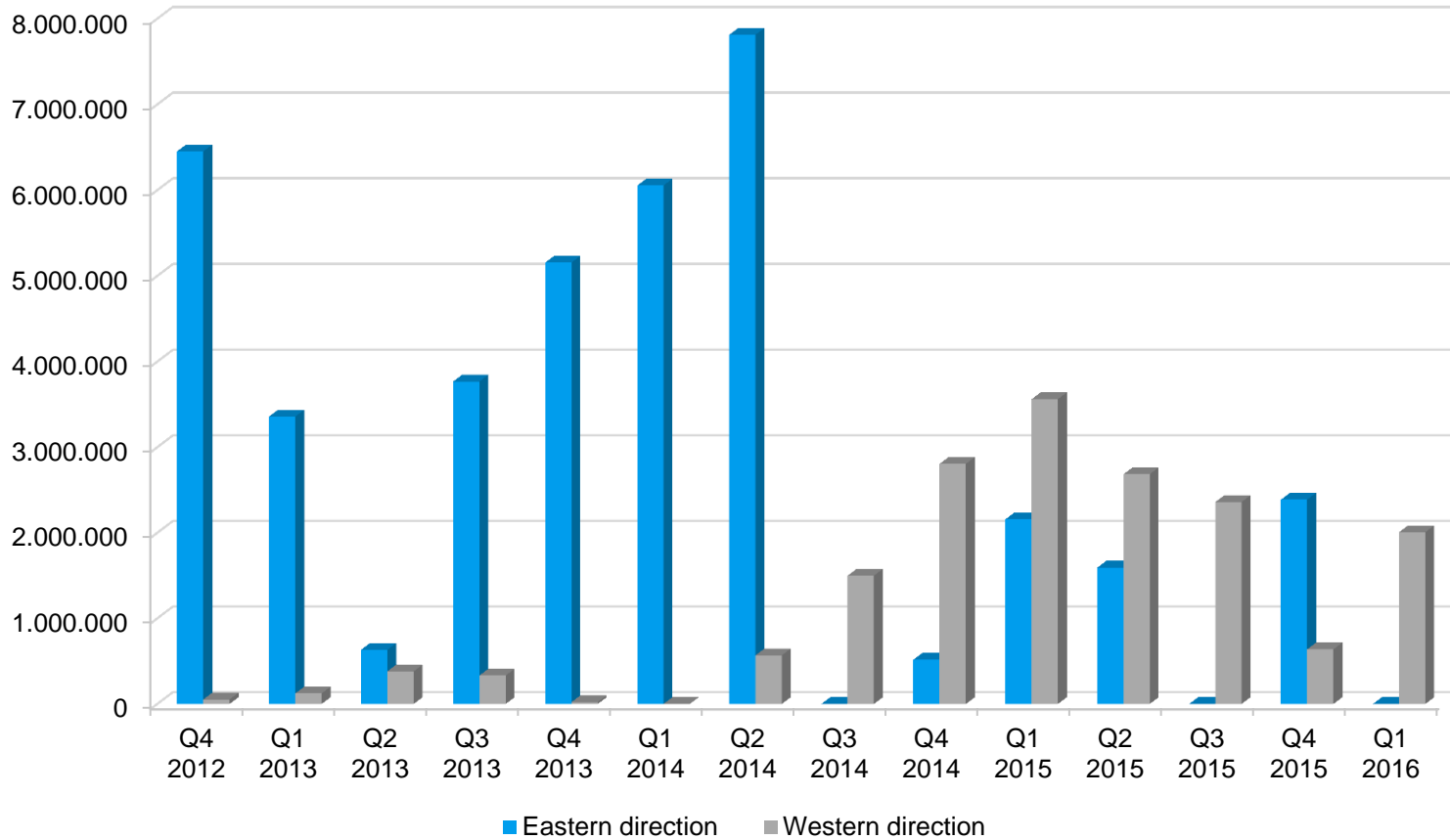
- US\$11m profit for 9m15 vs. US\$4bn loss for 9m14
- Improved debt collection and revenues
- Largest taxpayer



Transparency and accountability

- First detailed annual report
- Quarterly audited stand-alone accounts
- Corporate governance reform launched

Diversification of gas supplies, 000 m³

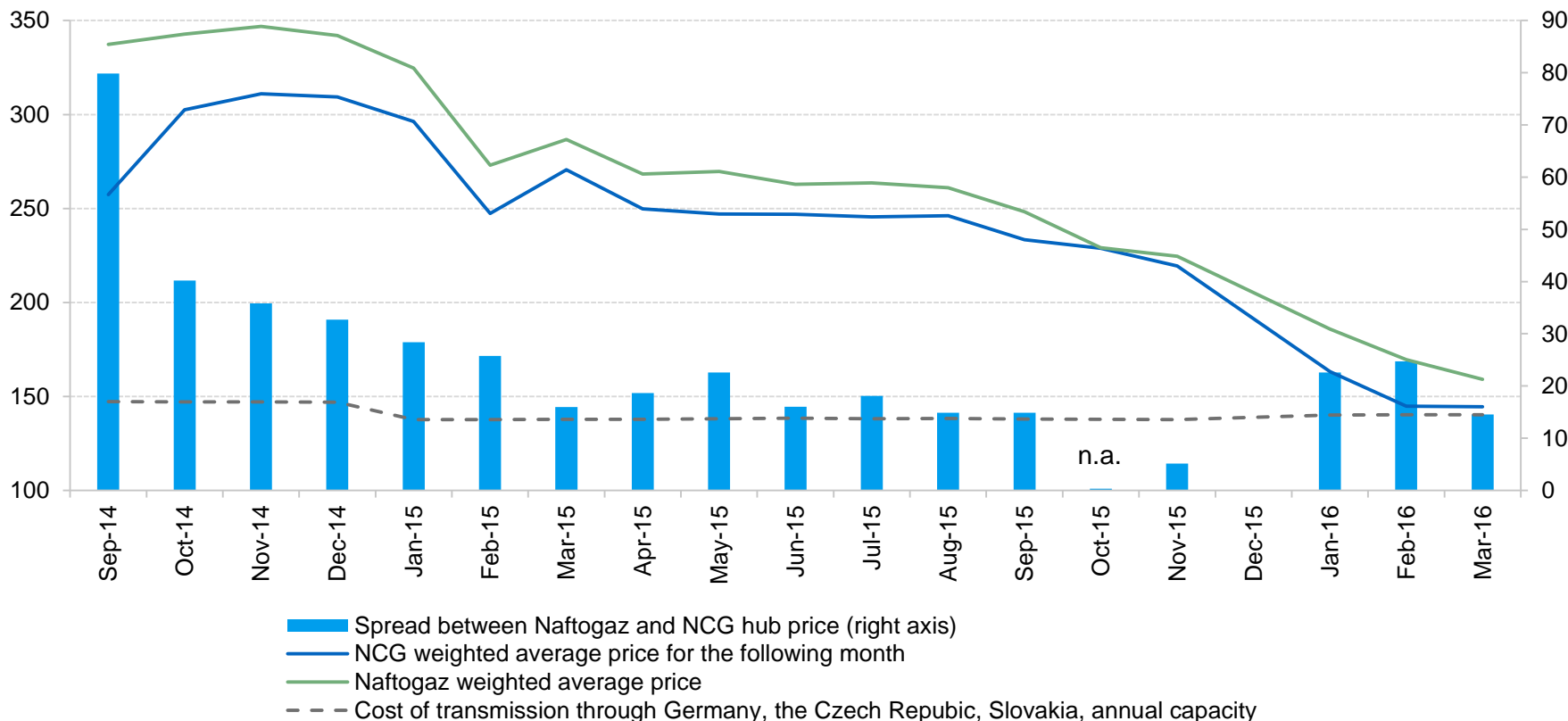


Diversification of gas supplies

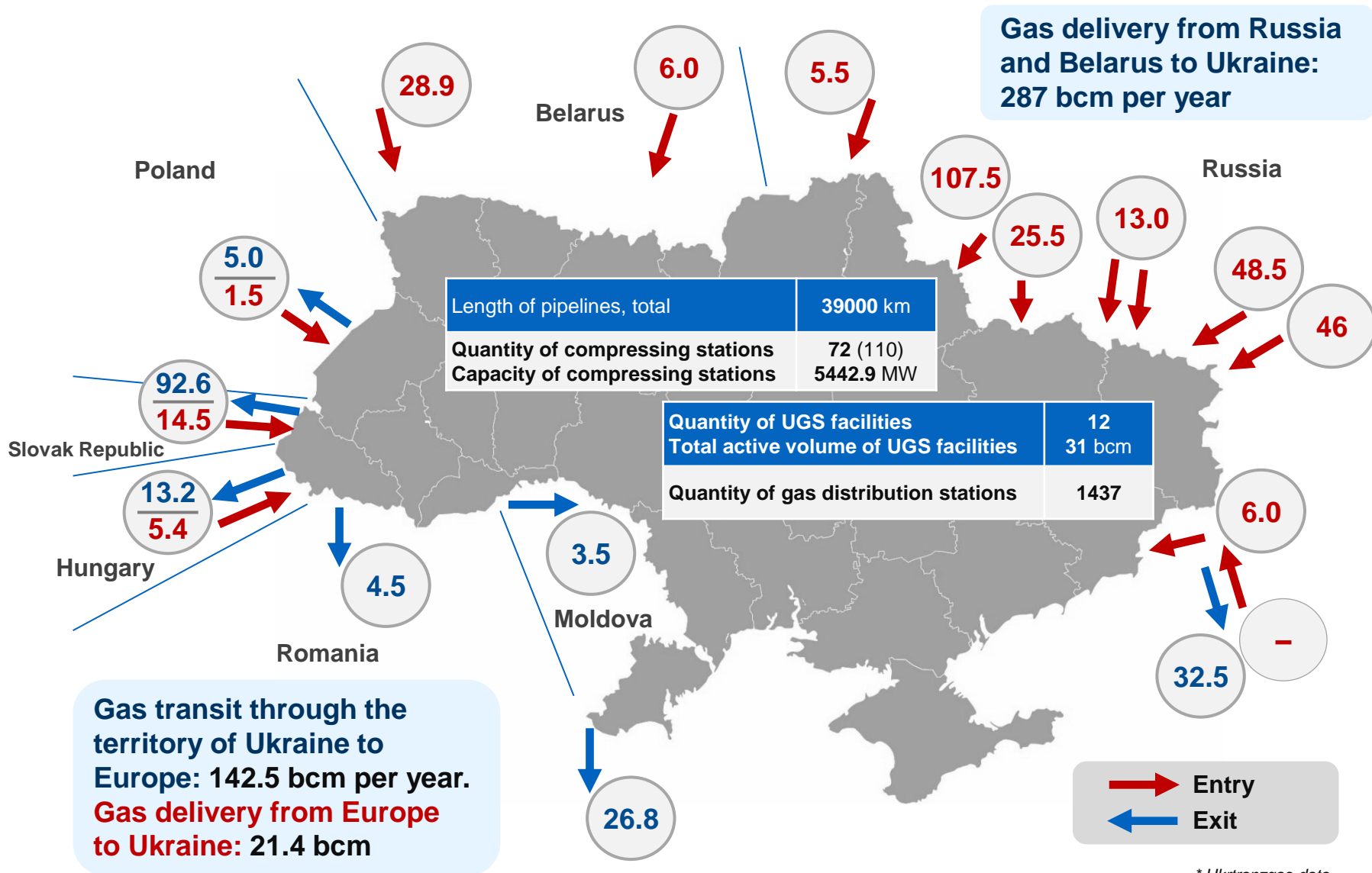
- Naftogaz effectively narrowed spread between its procurement price at Slovak VTP and NCG future quotes from 46 USD/kcm to 16 USD/kcm in 2014 and 2015 respectively.
- This was achieved due to: a) opening Budince IP with reverse flow capacities in 2014, and b) enhancing in-house trading capabilities

Comparison of Naftogaz purchase prices, delivery point VTP SK, and NCG prices, USD/000 m³

in USD/kcm



* NCG price is calculated based on Platts data, converted to USD using ECB FX rates for M-1 and excluding deliveries procured under EBRD tenders



Increase of technical reverse flow capacity from Slovakia to Ukraine



UPDATE 1-EU reverse gas flow capacity to Ukraine to rise to 40 mcm/day

Slovakia opens reverse-flow pipeline to carry gas to Ukraine



0 → 10 → 11.5 → 14.6

2013

2014

2015

bcm/y

Technical capacity of reverse flow exceeds import needs of Ukraine

Interconnection agreements between Ukrtransgaz and neighboring TSO's

Poland

- Interconnection agreement in place
- completed feasibility study on the construction of a gas pipeline interconnection between 2 countries (+7 bcm/y)

Belarus

Bi-directional Interconnection Agreement, but still problem with shipper pair from Gazprom

Russia

Slovak Republic

Hungary

Romania

Moldova

- Interconnection Agreement in place on Budince
- V.Kapushani is still blocked. The issue – legacy contract between Gazprom and Eustream

- Discussion to conclude Interconnection Agreement
- It is endeavour that the corridor Romania-Bulgaria-Greece will allow free virtual flow within these countries

Discussion on interconnection agreement with Moldovatrangaz (Moldova) has started

EBRD loan agreement



In 2015 Naftogaz secured 300 mln USD loan from EBRD for procurement of natural gas.

Main EBRD requirements for potential suppliers:

- Procurements should be done under EBRD rules
- Prequalification should be done under pre-agreed criteria
- Tender process should be conducted on non-discriminatory basis

12 large European gas suppliers (including Engie, RWE, E.On, EDF, Eni, Shell, CEZ, PGNiG) were prequalified for the first round of tenders.

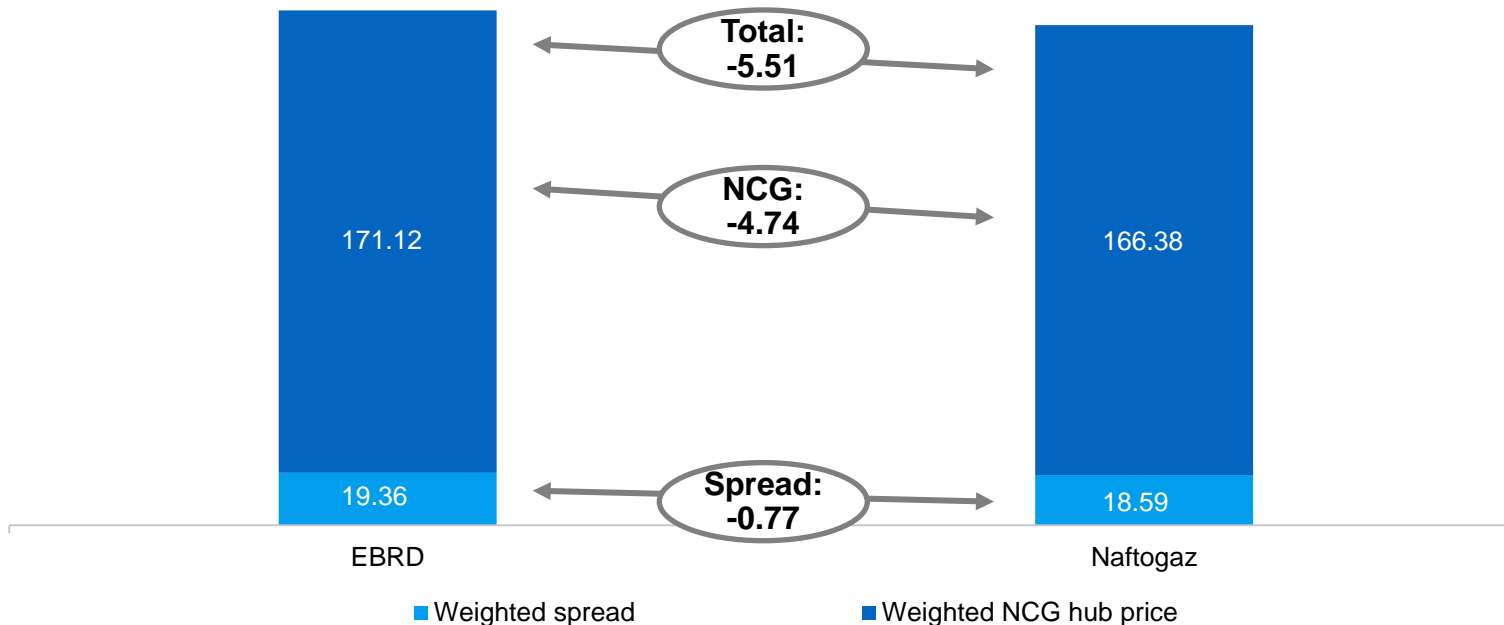
Results of the conducted tenders:

- 27 tenders were conducted in Dec'2015-Jan'2016
- 17 individual contracts signed
- total of 18.1 TWh (1.7 bcm) was procured using EBRD funds
- in May 2016 Naftogaz fully repaid the loan and initiated second prequalification round for EBRD financed procurements

While conducting tenders Naftogaz continued own procurement with same or better effectiveness when compared to EBRD procedures.

- Naftogaz internal trading procedures prove to be not worse than EBRD procurement process due to higher flexibility in entering transactions
- Naftogaz has always honored its obligations to EBRD

Spread between Naftogaz own purchases, NCG and under EBRD procurement rules for the contracts balance of month, VTP SK, USD/000 m³



Contracted volume:

- 1) Under EBRD procedures – 0.25 bcm of gas
- 2) Under Naftogaz procedures – 0.28 bcm of gas

Gas pricing reform

- In formulating the program with IMF in 2014 the management of Naftogaz advocated radical transition to the market-based pricing model where: a) the price of gas is set by supply and demand and b) low-income households are supported by direct subsidies from the State

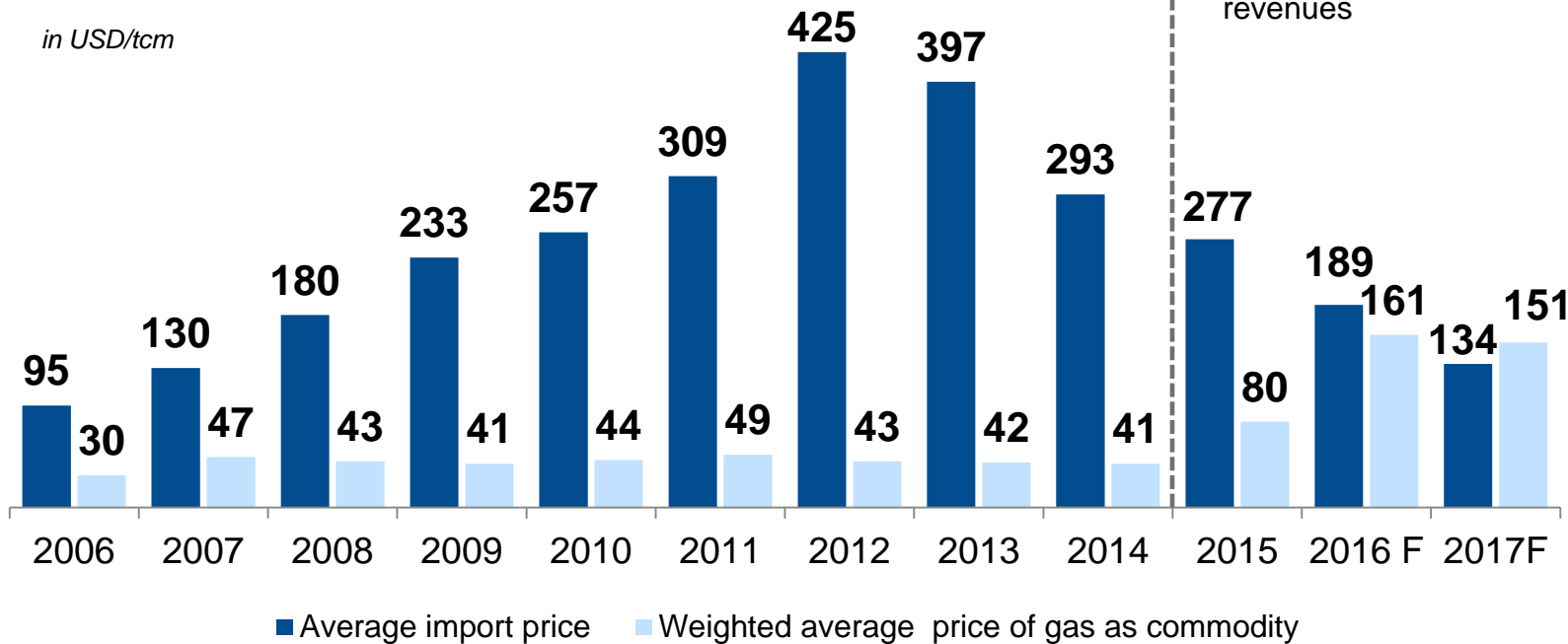
“Cheap” gas for households resulted in:

- Underinvested national upstream and full dependence on Russian gas
- Inefficient use of energy by households
- ~USD 60 bn in government spending and forgone revenue over 10 Y

2015 price adjustment resulted in:

- 2 bcm of gas savings due to reasonable consumption
- USD 1.2 bn less in state budget expenditures
- USD 1 bn more in state budget revenues

in USD/tcm



- At the initiative of Naftogaz, the corporate governance reform became a part of the Coalition Agreement, IMF memorandum and a number of loan agreements with IFIs
- The Corporate Governance Action Plan was developed by Naftogaz and approved by EBRD and the Government in Oct 2015. It is aimed at bringing Naftogaz practices in line with OECD guidelines

The corporate governance reform of Naftogaz is focused on four major areas

Insulation from political meddling

- **In Apr 2016** Independent Supervisory Board with limited powers is appointed
- The Supervisory Board will become fully empowered in 2017

Clear separation of policy maker and shareholder

- **Dec 2015** – Shares transferred to the Ministry of Economy.
- State bodies still tend to execute non-typical functions (e.g., policy maker tries to intervene into restructuring decisions)

Naftogaz as a Corporate centre

- Grant more discretion to Naftogaz in terms of financial control, reporting and planning
- Abolish Supervisory Boards at the level of Naftogaz wholly owned subsidiaries

Replace inefficient state controls by new controls

- Set forth rules and procedures to fully empower key functions (e.g. financial controls, compliance, internal audit, risk management, remuneration etc.)