

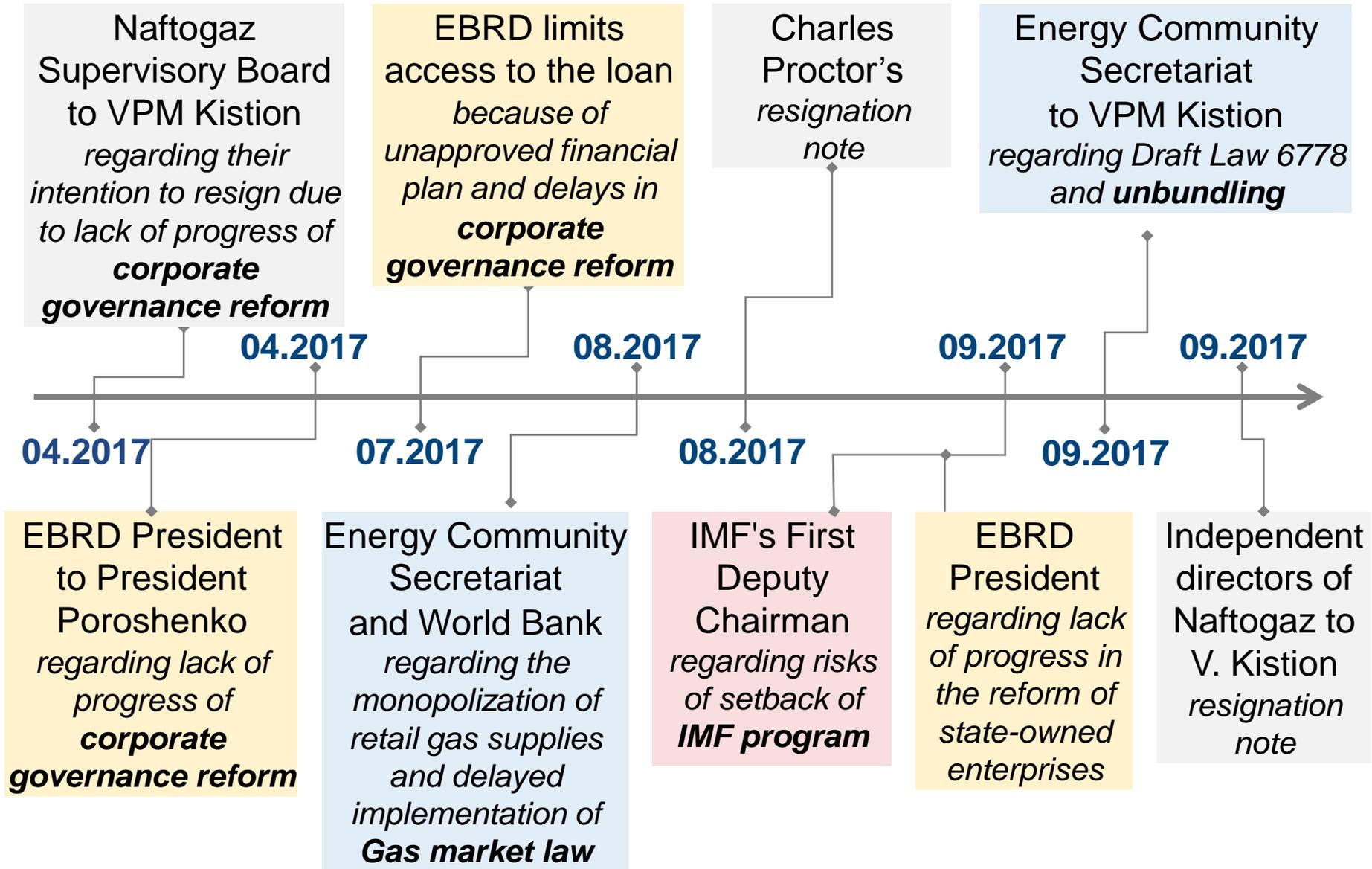
NAFTOGAZ REFORM update

20 September 2017, Kyiv

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Recent notices about setback in reforms



Naftogaz Supervisory Board members to Vice Prime-Minister of Ukraine Kistion

“To remind you our concerns relate to material progress on the actions by the Government required by the Government approved Corporate Governance Action Plan; resolution of the current crisis of receivables caused by various laws and actions in the control of the Government currently impacting Naftogaz’s current and future liquidity as we have discussed.

Additionally, we have concerns about the reaction to the Supervisory Board’s decision to dismiss the previous president of PJSC “UKRTRANSGAZ” and we would welcome Your assurance that this matter will only be dealt with based on the facts of the matter and not politicized.”

6 April 2017

EBRD President Chakrabarti to President Poroshenko

“Following a string of frustrating developments, I understand that the independent board of Naftogaz are about to resign.

Should this occur, it would not only severely damage Naftogaz at a time when reforms were finally beginning to take hold, but it would also shatter the international confidence in your government's commitment to reform and restructure Naftogaz and other key state-owned enterprises.

After many months of consultations, the draft state ownership policy for Naftogaz still contains provisions that go against the spirit of the corporate governance reform, thus compromising the intended independence and insulation of the company from undue political interference.”

7 April 2017

EBRD limits access to credit facility

“The EBRD is observing delays in the implementation of the Corporate Governance Action Plan by the Ukrainian government and is ready to fully resume the loan if the Cabinet of Ministers of Ukraine fulfills several commitments to the bank by the end of July.

In particular, the EBRD Operations Committee noted the Cabinet’s intention to approve Naftogaz financial plan and performance indicators for Naftogaz Supervisory Board to the bank's satisfaction by the end of this month”.

10 July 2017

Energy Community Secretariat

“On 15 March 2017, MEDTU circulated an updated draft PSO Regulations by electronic mail which allegedly was agreed by Ukrainian authorities and in particular the working group chaired by Vice Prime Minister H.E. Volodymyr Kistion. The majority of the Secretariat’s comments and requests made in the Conditional Approval were ignored and not even included in a correlation table presenting the comments received from various stakeholders.

The update draft only reflected one of the Secretariat’s comments, namely the one related to a lack of clarity in the envisaged use of natural gas to be supplied to district heating companies within the framework of public service obligations. None of the comments provided by other international stakeholders, including the Delegation of the European Union to Ukraine, were reflected by MEDTU.”

22 August 2017

Mr. Proctor's resignation

“Explaining his decision, Mr. Proctor commented that the level of government support required to deliver corporate governance reform had not been forthcoming, despite repeated commitments from government officials.

The remaining members of Naftogaz supervisory board share Mr. Proctor's discouragement with the present situation and his concerns about the future of corporate governance reform. Citing, amongst other areas of concern, the lack of an agreed strategy for the company, which creates a potential regulatory void enabling political meddling in the company's operation, and the continued lack of approval of agreed financial plans for Naftogaz group companies for 2017 with a consequent impact on the company's ongoing business, and specifically investment in critical projects to maintain transmission infrastructure and grow domestic gas production.”

5 September 2017

Energy Community Secretariat

“The Secretariat sees the Draft Law 6778 as a serious obstacle to the unbundling of the transmission system operator in line with the Third Energy Package as well as a threat to Ukraine’s future as a transit country for natural gas to Europe. Unfortunately, the tabling of this Draft Law is not the only step in this direction.

We recently observe an increased activity by the Ministry of Coal and Energy and the management of MGU essentially aiming at perpetuating control over the gas transmission and storage assets without respecting the country’s obligations under the Energy Community Treaty.

We believe it is high time to come to a solution of this issue in the true interest of Ukraine and not in anybody’s particular interest. The Secretariat will promote and facilitate such a solution. As a first immediate step, we request that any further legislative procedures of the Draft Law are cancelled without delay.”

12 September 2017

IMF's First Deputy Chairman Lipton

“Ukraine has done a giant job of stabilization: bringing the budget under control, dealing with the deficits of the gas system, restoring competitiveness, or dealing with the problems in the banking system. These are all very important accomplishments that put Ukraine on the path toward sustained growth. But there are risks of going backwards.

The decision to de-politicize the process through the automatic formula is critical and we expect the government to stick to this commitment. Allowing for automatic increases in gas tariffs in line with market developments was one of the major achievements of this reform program.”

15 September 2017

EBRD President Chakrabarti

“The EBRD is disappointed with the lack of progress in the privatisation and reform of state-owned enterprises.”

“Ukraine just does not have the luxury of further delaying the reforms required to complete the foundations and build the structure of its economy.”

18 September 2017

Independent directors' resignation

“Increasing political meddling is becoming increasingly evident and, unfortunately, the norm.” Material issues include:

- “Government interference with the operations at UTG, including the role of the CEO and other employees and plans for unbundling;
- the appointment of executives and senior technical staff dismissed from Naftogaz to government positions;
- Government interference with the operations of UGV;
- the lack of clarity on the commitment by Government to the agreed Corporate Governance Action Plan;
- a lack of meaningful approval by the government of the 2017 group business plan or;
- fulsome consideration by the Government of the proposed group strategy.”