

**REPORT FOR 2015**

**FOLLOWING THE RESULTS  
OF MONITORING SECURITY  
OF NATURAL GAS SUPPLIES**

**Kyiv, September 2015**

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## **Introduction**

Present document was prepared in accordance with Article 29 of the Treaty establishing the Energy Community, Article 7 of the Law of Ukraine “On Natural Gas Market” and paragraph 3 of the Order of Prime-Minister of Ukraine Arseniy Yatsenyuk dated 16/06/2015 #19217/1/1-15 on the implementation of the Law of Ukraine “On Natural Gas Market.”

When forming report for 2015 on the results of monitoring security of natural gas supplies (hereinafter – the Report), the Guidelines of Energy Community Secretariat for the preparation of the revised statements on security of energy supply in the member countries of the Energy Community were taken into account, approved during the 19th meeting of the High Level Group of the Energy Community on March 23, 2011.

The report covers the gas sector, which is subject to EU Directives and Regulations set out in the Protocol on Ukraine's accession to the Treaty establishing the Energy Community.

## **1. GAS SECTOR**

### **1.1. Key market participants and their obligations**

The key subjects of public administration managing Ukrainian gas complex are the Cabinet of Ministers of Ukraine, the Ministry of Energy and Coal Industry of Ukraine, the National Commission for State Regulation in Energy and Utilities (NCREU).

State management in the gas sector is carried out by the Ministry of Energy and Coal Industry of Ukraine, the main tasks of which, inter alia, consist of the formation of development priorities and ensuring normative and legal regulation in the energy sector, development and improvement of relations in the natural gas market, development of targeted programs, in particular to diversify supply sources of natural gas, as well as state supervision in the sector.

State regulation of the activities of the natural gas market subjects is carried out by the NCREU.

The cycle of operations on the gas market is carried out by NJSC “Naftogaz of Ukraine” - a vertically integrated oil and gas company that is subordinated to the Ministry of Energy and Coal Industry. Naftogaz carries out the processing of gas, oil and condensate in five gas-processing plants (GPP), which are part of the Company, producing LPG, motor fuels and other types of oil products. The company has a proprietary network of filling stations.

Corporate structure of the National Joint-Stock Company “Naftogaz of Ukraine” is as follows:

The Company has following subsidiaries (companies), whose sole founder and owner is the Company:

1. Subsidiary Company “Gaz of Ukraine” of the National Joint-Stock Company “Naftogaz of Ukraine”
2. Subsidiary Enterprise “Ukrnaftogazkomplekt” of the National Joint-Stock Company “Naftogaz of Ukraine”
3. Subsidiary Enterprise “Research Institute of Oil and Gas Industry” of the National Joint-Stock Company “Naftogaz of Ukraine”
4. Subsidiary Enterprise “Ukravtogaz” of the National Joint-Stock Company “Naftogaz of Ukraine”
5. Subsidiary Enterprise “Zakordonnaftogaz” of the National Joint-Stock Company “Naftogaz of Ukraine”
6. Subsidiary Enterprise “Vuhlesynteze gaz of Ukraine”
7. Subsidiary Enterprise “Paramilitary and Rescue (Gas Rescue) Service "Likvo" in Oil and Gas Industry” of the National Joint-Stock Company “Naftogaz of Ukraine”

8. Subsidiary Enterprise “Naftogazobsluhovuvannia” of the National Joint-Stock Company “Naftogaz of Ukraine”
9. Subsidiary Enterprise “Budivelnyk” of the National Joint-Stock Company “Naftogaz of Ukraine” (being in the process of restructuring by joining SE “Naftogazobsluhovuvannia)
10. Production and Sales Company “Naftogaz” of the National Joint-Stock Company “Naftogaz of Ukraine” (being in the bankruptcy process through liquidation)  
The Company is the sole shareholder (the size of the stake as a shareholder is 100%) of following companies:
  11. Public Joint-Stock Company “Ukrtransgaz”
  12. Public Joint-Stock Company “Ukrgezvydobuvannia”
  13. Public Joint-Stock Company “Ukrtransnafta”
  14. Public Joint-Stock Company “State Joint-Stock Company “Chornomornaftogaz”
  15. Public Joint-Stock Company “Ukrspetstransgaz”
  16. Company “Naftogaz Overseas SA” (incorporated in accordance with laws of the Swiss Confederation)

In 2012, Subsidiary Companies “Ukrtransgaz” and “Ukrgezvydobuvannia” were reorganized by transformation into public joint-stock companies: PJSC “Ukrtransgaz” and PJSC “Ukrgezvydobuvannia”, respectively.

In addition, the Company owns important stakes (shares) of the following companies:

- PJSC “Ukrnafta” amounting to 50%+1 share,
- LLC “International Consortium for the Ukrainian Gas Transmission System Management and Development” amounting to 50%,
- PJSC “Ukratnafta” amounting to 43.05%,
- JSC “Gaztranzyt” amounting to 40.22%,
- JV “Petrosannan Company” (Arab Republic of Egypt) 50%,
- “NAFTOGAZ Middle East, L.L.C.” (United Arab Emirates) 49%.

Branches and Representative Offices of the National Joint-Stock Company “Naftogaz of Ukraine”:

- National Joint-Stock Company “Naftogaz of Ukraine” Branch in Moscow;
- National Joint-Stock Company “Naftogaz of Ukraine” Branch in Turkmenistan;

- National Joint-Stock Company “Naftogaz of Ukraine” Branch in the Arab Republic of Egypt;
- National Joint-Stock Company “Naftogaz of Ukraine” Branch “Metrological Centre”;
- National Joint-Stock Company “Naftogaz of Ukraine” Branch “Construction Directorate”;
- Representative Office (Branch) of the National Joint-Stock Company “Naftogaz of Ukraine” in the Great Socialist People's Libyan Arab Jamahiriya (the decision was approved about the liquidation (report of the Company’s Board dated 11/01/2011 #2, liquidation procedure is not completed);
- Representative Office of the National Joint-Stock Company “Naftogaz of Ukraine” in the Republic of Iraq (by the report of the Company’s Board dated 17/04/2007 #59 the decision was approved about the suspension of the Representative Office);
- Representative Office of the National Joint-Stock Company “Naftogaz of Ukraine” in Hungary;
- Representative Office of the National Joint-Stock Company “Naftogaz of Ukraine” in the Kingdom of Belgium.

## **1.2. Regulations**

The main regulations of the sector are:

- Law of Ukraine “On Natural Gas Market” dated 09.04.2015 # 329;
- Law of Ukraine dated 08.07.2010 # 2467 “On Principles of Natural Gas Market Functioning”. From 1 October 2015 this law will expire since the Law of Ukraine “On Natural Gas Market” dated 09.04.2015 #329 is adopted;
- Law of Ukraine dated 16.06.2011 # 3533 “On Commercial Metering of Natural Gas”;
- Law of Ukraine dated 20.04.2000 # 1682 “On Natural Monopolies”;
- Law of Ukraine dated 12.07.2001 # 2665 “On Oil and Gas”;
- Law of Ukraine dated 15.05.1996 # 192 “On Pipeline Transport”;
- Law of Ukraine dated 02.03.2015 # 222 “On Licensing Economic Activities”;
- Law of Ukraine dated 02.11.2006 # 307 “On Functioning of Fuel and Energy Complex in Special Period”.

In accordance with the commitments undertaken by Ukraine within the Treaty establishing the Energy Community, in particular requirements of Directive 2009/73/EU of the European Parliament and the EU Council concerning common rules for the internal market of natural gas and Regulation 715/2009 of the European Parliament and the EU Council on conditions for access to natural gas transmission networks with a view of transition from the existing market structure to an open

natural gas market, the Law of Ukraine “On Natural Gas Market” dated 09.04.2015 # 329 is adopted, pursuant to which it is planned:

- amendments to some Laws of Ukraine, in particular to the Laws of Ukraine “On Oil and Gas”, “On Pipeline Transport”, “On Heat Supply”, “On Measures to Ensure Stable Operation of Fuel and Energy Complex Companies”, “On Functioning of Fuel and Energy Complex in Special Period”, “On Commercial Metering of Natural Gas”, “On Condominium Associations”, Tax Code of Ukraine, the Code of Administrative Offences and others.

- implementation of the Law of Ukraine “On Natural Gas Market” will require the development of a number of measures and adoption of by-laws, including:

- 1) By-laws that are approved by the Cabinet of Ministers of Ukraine:

- procedures to protect vulnerable consumers;
- procedure for determining the compensation for natural gas market entities entrusted with special duties in accordance with Part 1 Article 11 of the Law of Ukraine “On Natural Gas Market” ;

- procedure for opening (closing) current accounts with the special regime of use;

- procedure for settlements for consumed natural gas;
- the list of authorized banks servicing current accounts with the special regime of use;

- procedure for the independent examination of source data for compliance with current standards, rules and regulations;

- conditions of competitions for a GTS partner;
- conditions of competitions for a UGS partner;
- criteria for selection of natural gas market entity or entities entrusted with special duties in accordance with Part 1 Article 11 of the Law of Ukraine “On Natural Gas Market”;

- 2) By-laws that are approved by the Ministry of Energy and Coal Industry of Ukraine:

- rules for security of natural gas supply;
- action plan in case of a crisis with natural gas supplies;
- analysis of long-term economic benefits and costs for measures on the implementation of new systems of gas metering and their optimal list, an implementation plan for the chosen set of measures;

- list of independent organizations that carry out independent examination of source data for compliance with current standards, rules and regulations.

- 3) By-laws that are developed/adopted by the Regulator:

- Code of gas distribution systems;
- licensing conditions for the economic activity in natural gas transportation;
- licensing conditions for the economic activity in natural gas distribution;

- licensing conditions for the economic activity in natural gas storage (injection, withdrawal);
- methodology for determining tariffs for transportation of natural gas for entry and exit points;
- methodology for determining tariffs for services of natural gas distribution;
- methodology for determining tariffs for services of natural gas storage (injection, withdrawal) with respect to gas storage facilities, to which the regulated access regime is applied under Article 48 of the Law of Ukraine “On Natural Gas Market”;
- rules for the supply of natural gas;
- reporting forms with respect to types of economic activity in the natural gas market that are subject to licensing, procedure for their filling in and submission for review by independent auditors;
- criteria under which a contractual access regime or regulated access regime is applied to a certain gas storage facility;
- rules of considering complaints on actions of natural gas market entities (except for consumers) and settlement of disputes between natural gas market entities;
- standard-form contract on natural gas transportation;
- standard-form contract on natural gas distribution;
- standard-form contract on natural gas storage (injection, withdrawal);
- standard-form contract on supply of natural gas to residential consumers;
- standard-form contract on supply of natural gas by supplier "of last resort";
- methodology for determining fee for joining to gas transmission and distribution systems;
- certification procedures;
- code of gas transportation system (developed by the operator, approved by the Regulator);
- code of gas storage facilities (developed by the operator, approved by the Regulator);
- program of compliance of gas transportation system operator (developed by the operator, approved by the Regulator);
- contract between the controller and gas transportation system operator (developed by the operator, approved by the Regulator).

In addition, within the Project of technical assistance to the Ministry of Energy and Coal Industry of Ukraine and NCREU funded by the European Commission and the World Bank, it is envisaged to invite consultants to draft by-laws stipulated by the terms of reference, including:

- rules for security of natural gas supply;
  - National Action Plan (action plan in case of a crisis with natural gas supplies)
- etc.

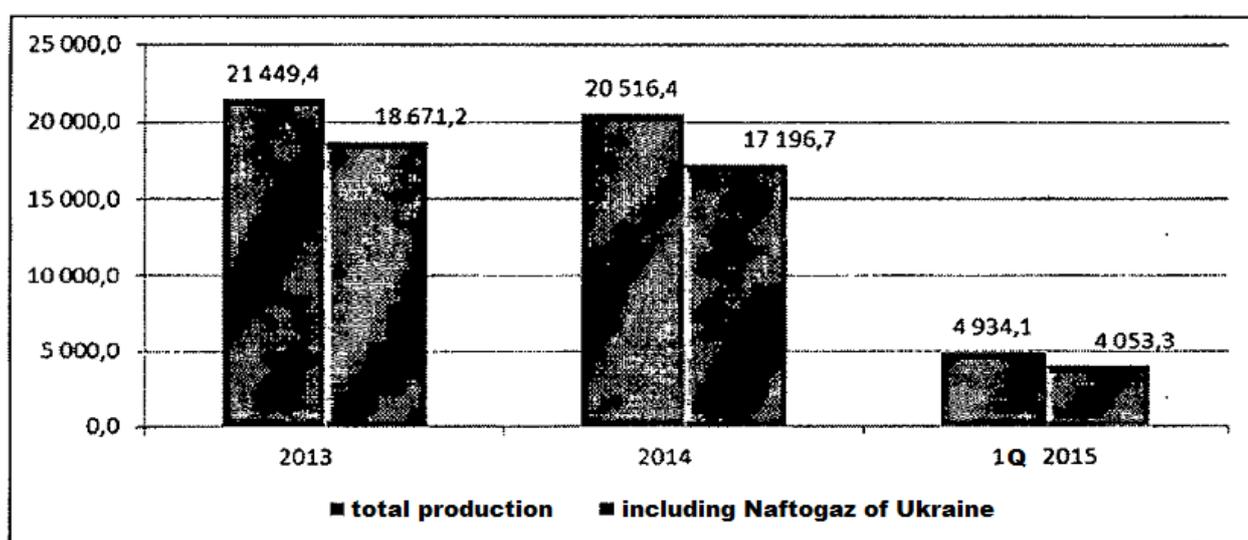
The need to adopt a law on the status of the National Commission for State Energy & Public Utilities Regulation as an independent collegial body will facilitate fulfilling provisions of the Third Energy Package by Ukraine.

Draft Law of Ukraine “On National Commission for State Energy & Public Utilities Regulation”, submitted by the Cabinet of Ministers of Ukraine, registered in the Verkhovna Rada of Ukraine (reg. # 2966 dated 28/05/2015) is finalized currently.

### 1.3. Description of the sector: structure of “use”, import / export

Ukraine has certain amounts of domestic production and imports gas of Russian and European origin.

*Figure 1. The volume of domestic natural gas production  
Gas production in 2013-2014 and 1Q2015, mcm*



The total volume of natural gas use amounted to 42.64 bcm in 2014. At the same time, import amounted to 19.5 bcm.

Upon results of 2014, the import of Russian gas is 14.4 bcm. The total amount of projected use is 40.3 bcm in 2015.

*Table 1. The distribution of natural gas in 2014, %*

Industrials	34.1
Population	35.3
District heating companies	19.2
Technological expenses and own needs of gas transmission and gas producing companies	6.7
Technological expenses and own needs of gas distribution companies	2.2
Budget organizations	1.6
Volumes used in the ATO zone	0.9

In 2014 Ukraine has not exported natural gas.

## **1.4. Storage**

PJSC “UKRTRANSGAZ” has 12<sup>1</sup> underground gas storages (UGS). Active volume of PJSC “UKRTRANSGAZ”’s underground gas storages makes 30.95\* bcm, the maximum daily production during gas withdrawal - 280\* mcm/day. Most of them (about 82% of capacity) is located in the western region of Ukraine in end areas of the Ukrainian part of transit pipelines – “Soyuz”, “Progres”, “Urengoy-Pomary-Uzhgorod”.

Underground gas storages of PJSC “UKRTRANSGAZ” are intended for:

- seasonal adjustment of uneven gas consumption;
- additional gas supply to consumers at extreme temperature decreases, both on certain days, and during abnormally cold winters; creation of long-term gas reserves in the event of unforeseen emergencies, such as long-term suspension of gas supplies in connection with major accidents, natural disasters, etc.;
- gas reservation in case of short-term emergency in the gas supply system;

Underground gas storage system can be used not only to cover seasonal unevenness of gas consumption, but also to create strategic reserves of 10 - 15 bcm of gas for insurance of consumers in Ukraine, Western and Central Europe, the Balkan area and Turkey.

## **1.5. Ukrainian gas transmission system**

### **1.5.1. General description**

The gas transportation system (GTS) of Ukraine has two main functions: transit of gas through Ukraine to Europe and transportation of natural gas for consumers. It is closely linked to gas transportation systems of neighbouring countries - Poland, Belarus, Russia, Romania, Moldova, Hungary and Slovakia - and integrated through them into the European gas network.

The GTS of Ukraine can be divided into two corridors by key transit areas of gas transportation.

The first corridor is western direction, which includes the following main pipelines as “Soyuz”, “Progres”, “Urengoy-Pomary-Uzhgorod”, “Dolina-Uzhgorod” II line, system of gas pipelines Kyiv-Western Ukraine, “Komarno-Drozdovychi”, Ivatsevichy-Dolyna (two lines), Torzhok-Dolhna and others.

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<sup>1</sup> NOTE! Information is provided on the basis of infrastructure objects that are on temporarily occupied territories

The second corridor is southern direction. It includes pipelines Shebelynka-Dnipropetrovsk-Krivyi Rih-Izmayil, Yelets-Kremenchuk-Krivyi Rih, Kremenchuk-Ananiv and Ananiv-Tiraspol-Izmayil.

The capacity of the gas transportation system at the "input" makes up to 302.1 bcm, at the "exit" to Europe – 146 bcm.

PJSC “UKRTRANSGAZ” has 39.3 th. km of gas pipelines of different purpose and capacity, 72 compressor stations (CS), 1,456 gas distribution stations, 12 underground gas storages (UGS) and infrastructure objects that ensure operation of the system.

Gas transportation through the pipeline system and its injection into UGS is performed by 110 compressor plants, where there are 702 gas compressor units with the total capacity of 5.45 th. MW.

At the beginning of 2015, the total length of main gas pipelines made 22.5 th. km, branch gas pipelines – 13.5 th. km, distribution pipelines – 3.1 th. km.

### 1.5.2. Transit of natural gas

Before 2005, the total natural gas transit through Ukraine's gas transportation system (including transit to CIS countries) made from 120 to 140 bcm annually, and since 2005 there is a tendency of gas transit volume reduction from Russia to Europe.

Since 2008, after commissioning of the gas pipeline Sokhranovka - Oktyabrskaya, bypassing Ukraine, the gas transit to the south was completely stopped by the system of main gas pipelines “North Caucasus - Centre”.

A negative factor for the gas transportation system of Ukraine was commissioning of gas pipeline "Nord Stream" with total design capacity of 55 bcm / year by Gazprom. In 2012, the gas pipeline "Nord Stream" transported 11.3 bcm of gas, in 2013 - 22 bcm of gas and in 2014 - 34 bcm of gas.

*Table 2. Gas transit trend to Europe for the last 5 years*

Direction	Q Project	2010	2011	2012	2013	2014
GMS Uzhgorod	92.6	67.9	70.6	51.8	53.5	31.4
GMS Tekovo	4.5	0.3	0.7	0.3	0.2	0
GMS Bergovo	13.2	7.1	5.9	5.7	6.4	6.5
GMS Drozdovychi	5.0	3.4	4.0	3.8	3.9	3.5
GMS Orlovka	26.8	16.7	19.9	19.6	19.7	18.0
To Moldova	3.5	3.2	3.1	3.1	2.4	2.8
Total	146.0	98.6	104.2	84.3	86.1	62.2

Natural gas transit to the territory of Ukraine is effected based on concluded Contract #TKTY dated September 19, 2009, between National Joint Stock Company “Naftogaz of Ukraine” (hereinafter referred to as NJSC “Naftogaz of Ukraine” or

Company) and Open Joint Stock Company “Gazprom” (hereinafter referred to as OJSC “Gazprom”) on volumes and terms of natural gas transit through the territory of Ukraine during the period from 2009 till 2019 (hereinafter referred to as Contract TKFY).

The Company shall completely fulfil its obligations towards Russian Party, that were determined by the terms of Contract TKFY, in particular: ensuring reliable functioning of GTS of Ukraine and uninterrupted gas transit through the territory of Ukraine to the European countries in the volumes provided by OJSC “Gazprom”.

The terms of Contract TKFY indicate that from 2009 till 2019 annual volumes of natural gas transit to the European countries shall be not less 110 bcm and during 2012 – 2015 – 112 bcm.

However, OJSC “Gazprom” systematically does not provide gas volumes stipulated by the Contract. Such situation substantially affects financial position of the Company.

### **1.5.3. Projected amounts of natural gas consumption in 2015**

Considering the situation on the gas market of Ukraine and taking into account the order of the President of Ukraine and state government on reducing natural gas consumption volumes and increasing volumes of alternative fuel in the years to come, the consumption of natural gas in Ukraine during 2015 is expected to be at the level of 40.2 bcm.

### **1.5.4. Projected amounts of natural gas production during 2015-2016**

In 2014 the volume of natural gas extraction by the facilities of National Joint Stock Company “Naftogaz of Ukraine” made around 17.20 bcm. Planned natural gas extraction volumes for 2015 make 16.16 bcm, for 2016 – 15.52 bcm (worst case scenario). Moreover, annual forecast volume of natural gas extraction by non-governmental companies makes around 3.3-3.5 bcm (best case scenario). Worst case scenario that will arise provided that there will be further tax pressure upon non-governmental extraction companies and continuance of combat operations in Anti-terroristic area, means that the extraction of natural gas by non-governmental companies will reduce up to 2 bcm per year.

### **1.5.5. Diversification of natural gas deliveries to Ukraine**

One of the key points to ensure energy security is a diversification of the sources and routs of supply of energy resources to Ukraine. In this regard, several

projects are being implemented and alternative of gas supply sources are being searched.

As of today, technical capacity for natural gas intake from the European countries to Ukraine through GMS Hermanowicze (Poland) makes up to 4.3 mmcm per day (1.5 bcm per year), GMS Beragdaroc (Hungary) up to 16.8 mmcm per day (5.4 bcm per year) and GMS Budince (Slovakia) up to 40.0 mmcm per day (14.5 bcm per year).

At the same time, the representatives of Ukraine continue to hold negotiations with gas companies in Slovakia, Poland, Hungary as well as Bulgaria, Romania, Turkey, Greece and other countries concerning possible gas supplies or their increase on existing directions using gas transmission systems of mentioned above countries.

During 2014 Slovakia, Poland and Hungary supplied 5 015.6 mmcm of natural gas to the territory of Ukraine:

- 3 553.7 mmcm from Slovakia;
- 8 76.3 mmcm from Poland;
- 5 85.6 mmcm from Hungary.

According to real-time data, for the first quarter 2015 the European countries transported 3 614,9 mmcm of natural gas, including these directions:

- 3 247.0 mmcm from Slovakia;
- 3 40.1 mmcm from Hungary;
- 2 7.8 mmcm from Poland.

#### **1.5.6. Gas imports**

National Joint Stock Company “Naftogaz of Ukraine” receives natural gas from the Russian Federation under the signed Contract #KII on sales and purchase of natural gas in 2009-2019, dated January 19, 2009, between Open Joint Stock Company "Gazprom" and the National Joint Stock Company "Naftogaz of Ukraine" (hereinafter referred to as Contract KII).

The contract price for natural gas is calculated on a quarterly basis by the formula and depends on the price of gas oil and fuel oil and conditions on the world markets for oil and petroleum products.

Due to incoordination of price for imported natural gas and non-payment of bills for received natural gas, starting from June 16, 2014 OJSC “Gazprom” has suspended gas supplies to Ukraine and imposed prepayment conditions for NJSC “Naftogaz of Ukraine”. From June to December, 2014 the Company did not receive Russian natural gas. Lack of compromise between the Parties resulted in submission of a claim by National Joint Stock Company “Naftogaz of Ukraine” to Arbitration

Institute of the Stockholm Chamber of Commerce in June, 2014. The legal proceedings may take quite a long period of time.

In order to settle the issue regarding natural gas supplies from the Russian Federation to Ukraine and adjustment of price for the imported natural gas to the market level, series of meetings and consultations in trilateral format "Ukraine - EU - Russia" have been conducted. During all meetings and consultations each Party expressed different points of view to address this issue.

On October 30, 2014 during another trilateral meeting in Brussels, a Binding Protocol on gas supplies from the Russian Federation to Ukraine for the period from November, 2014 till March 31, 2015 has been signed between the Government of Ukraine, the Russian Federation and the European Commission. Corresponding addendum to the Contract KII, so-called "winter package" has been signed as well.

In relation to this addendum, in November and December, 2014, NJSC "Naftogaz of Ukraine" transferred \$3.1 billion to OJSC "Gazprom" for natural gas received during November-December, 2013 and April-June, 2014. Therefore, Ukraine fulfilled its obligations and ensured supplies of natural gas in November-December, 2014 and January-March, 2015, in volumes necessary to create gas balance in Ukraine.

Due to expiration of validity of Biding Protocol and Addendum #33 to the Contract KII, on April 1, 2015, NJSC "Naftogaz of Ukraine" and OJSC "Gazprom" have signed Addendum #34 to the Contract KII for the period from April, 2015 till June 30, 2015, under similar to "winter package" conditions.

Volume of natural gas imported by OJSC "Gazprom" to Ukraine made: in 2012 – 24.9 bcm, in 2013 – 12.9 bcm, in 2014 -14.3 bcm.

## **2. Security of supplies and sector activities in the state of emergency**

Gas supply reliability is monitored in accordance with legislation of Ukraine "On natural gas market".

Central executive body that ensures establishment and implementation of state policy in oil and gas industry is obliged to monitor security of natural gas supply and:

- 1) status of measures implementation regarding security of natural gas supply;
- 2) natural gas demand and supply balance in Ukraine;
- 3) long-term foreign economic sales and purchase agreements or natural gas supply agreements concluded during fiscal year;
- 4) status of resource provision of natural gas market (natural gas market liquidity);
- 5) sufficiency of connection potential between gas transmission system in Ukraine and gas transmission system of other countries;
- 6) level of expected demand, available income and, respectively, forecast

situation at natural gas market taking into account changes in demand, self-dependency of natural gas sources and possible change of such sources;

7) volumes of new capacities of gas transmission and gas distribution systems, LNG facilities construction of which are planned or already started;

8) technical condition of gas transmission and gas distribution systems;

9) activities aimed at satisfying peak demands and covering natural gas deficit of one or several suppliers.

In cases of emergency state the operation of the sector is organized under the procedure set out in Article 18 of the Ukrainian legislation dated 15.05.1996 # 192 “On pipeline transport”.

Operations carried out under the conditions of emergency state include: operations related to eliminate the consequences of natural disaster (floods, fires, snow storms etc.), emergencies and catastrophes that caused disruption of pipeline transport operation.

GTS of Ukraine is closely connected with gas transmission systems in Russian, Belorussia, Poland, Slovakia, Hungary, Romania and Moldova and through them it is integrated into common European gas network. As a part of mutual aid mechanism Ukraine is able to receive/supply gas from the national gas storages from/to o Poland, Slovakia, Hungary, Romania.

### **3. Reforming of gas sector and modernization of existing capacities**

Gas sector reforming plan was approved by the Ukrainian Cabinet of Ministers dated 25.03.2015 # 375-p.

Action plan on gas sector reformation includes development and submission to Energy Community Secretariat of a draft plan for Company’s restructuring with a purpose to segregate natural gas transmission business under the requirements of Ukrainian legislation “On natural gas market” (due date: from April to October, 2015) as well as development and submission to CMU (Cabinet of Minister of Ukraine) of a draft by-law of CMU regarding selection of one of the two models for segregation of gas transmission system that belongs to government and is not subject to privatization (segregation model ОН or 180) and Company’s restructuring plan (due date: from October, 2015 to January, 2016).

According to the results of consultations with Energy Community Secretariat and international consultants of the Company, within the terms stipulated by the Action Plan regarding reformation of gas sector, a segregation model for gas transmission system will be selected and Company’s restructuring plan will be developed.

The European Commission and the World Bank have entered into agreement on establishment of Trust Fund aimed at supporting the modernization of gas transmission system of Ukraine and providing technical aid in amount of €2.5 million under General Statement on GTS modernization dated May 23, 2009 (signed by EC,

Ukrainian government, the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank).

The key components of Trust Fund are rendering of technical aid to National Joint Stock Company “Naftogaz of Ukraine” and to the Ministry of Energy and Coal Industry of Ukraine in preparation of reforming of National Joint Stock Company “Naftogaz of Ukraine”, including structure enhancement, increase of financial soundness and support of project management group “Modernization and reconstruction of the main gas pipeline Urengoy-Pomary-Uzhgorod” etc.

The project envisages rendering aid to the Company in finalizing the concept for its restructuring with development of realistic and reasonable plan for restructuring of businesses for transportation, storage and distribution of gas for short-term and mid-term perspective, aimed at ensuring the fulfilment of Ukraine’s obligations under the Agreement on establishment of Energy Community.

Fulfilment of Task 1 envisages finalizing of the concept for Company’s restructuring and development of realistic and reasonable plan for its reformation and restructuring for short-term and mid-term perspective.

On 03.06.2015 the consultants have submitted a draft document under the Task 1 for its further processing and providing comments and suggestions.

Moreover, officials PJSC “UKRTRANSGAZ” are finishing the preparation to implementation of two investment projects with raising loan funds from the European Investment Bank, EBRD and “Deutsche Bank AG”:

Project “Reconstruction, capital repair and technical re-equipment of main gas pipeline Urengoy-Pomary-Uzhgorod (total project cost - €330.00 million: raised funds from EBRD and EIB – up to €300.00 million, own funds of PJSC “UKRTRANSGAZ” - €30.00 million);

Project “Reconstruction of compressor station “Bar” of Sojuz gas pipeline (total project cost €65.62 million: raised funds from “Deutsche Bank AG” – €53.57 million, own funds of PJSC “UKRTRANSGAZ” - €12.05 million). \*

- Also, as a part of implementation of the Business Program of Cabinet of Ministers of Ukraine and Sustainable Development Strategy “Ukraine-2020”, the activity for preparation and initiation of the project for construction of interconnector between Ukraine and Poland.

Approximate construction cost of main interconnector at the territory of Ukraine makes - \$245 million. Funds from IFO are expected to be used for financing.