Naftogaz

Naftogaz of Ukraine is a vertically integrated oil and gas company engaged in full cycle of operations in gas and oil field exploration and development, production and exploratory drilling, gas and oil transport and storage, supply of natural gas and LPG to consumers.

Aside from purely commercial operations, the Group plays an important social role and is designated by the government as the entity with public service obligations, i.e. wholesale supplier of natural gas to households, budget-funded institutions and municipal heating utilities at regulated prices.

History

In Ukraine in the nineties, state-owned enterprises (primarily Ukrgazprom) were unable to cope with domestic non-payments for gas and debts for its Turkmen and Russian supplies. Under these conditions, the government decided to entrust the solution of this problem to private intermediaries or gas traders, as they later became known. In view of the chronic shortage of cash, direct exchange of goods or barter was legalized. But the main profits of gas traders were obtained not through barter, but through resale at higher prices of Russian and Turkmen gas both in Ukraine and abroad.

Gas traders in the country were several dozen, and their activities were under the control of various high-ranking officials. The mechanism of gas supply to Ukraine, which operated during this period, provided that at first part, and then almost all gas was sold commercially. In this area, huge financial resources were accumulated, which were used, among other things, in the struggle for power. In addition, private gas traders actively accumulated debts for imported gas, the guarantor of payment of which was the state. The merger of players in the oil and gas markets into a single company laid the foundation for a modern structure and management scheme for the oil and gas sector.

The company Naftogaz was founded in 1998 by the decision of the President[1] and the Government of Ukraine[2] after previously being named Ukrgazprom. By Cabinet of Ministers Resolution on the Establishment of the National Joint-Stock Company Naftogaz of Ukraine No. 747 dated 25 May 1998, Naftogaz of Ukraine gathered all the state assets in oil & gas industry of Ukraine together.

In 1995-1997, gas supply companies (traders) went through corporatization and partly received private shareholders. Control packages of the shares belonging to

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[1] The Decree of the President of Ukraine "On the Reform of the Oil and Gas Complex of Ukraine" No. 151 dated 25 February 1998

[2] CMU Resolution on the Establishment of the National Joint-Stock Company Naftogaz of Ukraine No. 747 dated 25 May 1998

the state association Ukrgaz were transferred to Naftogaz of Ukraine statutory fund. Later, during the redistribution of the market in 2007-2009 and the "big privatization" in 2011-2012, control over the gas supply companies was concentrated around several business groups.

The increase in the tax burden on the holding's enterprises has become permanent since the beginning of the zero years. The economic feasibility of such actions can’t withstand any criticism. The size of taxes, as is known, should stimulate the development of production. This is especially important for gas production, where the increase in volumes directly depends on investment in production processes. The level of Naftogaz's annual domestic investments was 50-60% of the plan, and rental payments for hydrocarbon production for 2001-2007 increased 12 times. Naturally, in such a situation there was no increase in gas production in the country.

Disadvantages of corporate governance and government actions have caused Naftogaz's accumulation of external loans in 2003 and 2007 and their misuse. By early 2008, company had matured for a technical default. It took serious efforts of the government to overcome the financial crisis of Naftogaz through budgetary funds.

In 2003, Naftogaz of Ukraine initiated a number of projects related to the development of hydrocarbon resources outside Ukraine (Egypt, UAE, Libya), and in 2009, Naftogaz received the industrial inflow of the oil outside Ukraine for the first time – from the oilfield in Egypt.

On 25 January 2010, the agreement on the distribution of shares in the supervisory board – the body which, according to the same document, approves the personal composition of the board of Ukrnafta (oil and gas company - subsidiary of Naftogaz) was signed by three parties. The first is NJSC Naftogaz of Ukraine, which owns a qualifying holding in Ukrnafta. The second is four offshore firms, three of which are registered on one and the same day in Cyprus, and the fourth one in Charlestown, the island state of Saint Kitts and Nevis in the Caribbean Sea. Consequently, under this agreement, for Naftogaz of Ukraine, six members were assigned, and five were appointed by the chairman of the board of Ukrnafta for minority shareholders (read by Kolomoisky), in spite of the fact that the quorum of meetings of the supervisory board is eight Persons. And most importantly, the agreement stipulated that any disputes concerning its "existence, validity or termination" should be settled exclusively by the London Court of International Arbitration.

In 2011, Naftogaz started cooperating with Halliburton Ukraine (USA), ExxonMobil Corporation (USA), Total E&P Activities Petrolieres (France), Eni Ukraine Holdings B.V. (Italy) on the matters of developing oil & gas production within Ukrainian borders. In November 2012, Ukraine began to receive gas in a reverse direction. According to the agreement with RWE Supply & Trading GmbH (Germany), the supply of natural gas was launched in 2012 from the territory of Poland and in 2013 from the territory of Hungary. In 2014, Ukraine signed a memorandum of cooperation in the energy sector with the Slovak transit company, which envisaged the beginning of reverse supplies of gas from the territory of Slovakia. In 2017, Ukraine increased natural gas imports by 26.8%, in particular, 9.9 billion cubic meters of gas were received from Slovakia, from Hungary – 2.8 billion cubic meters, from Poland – 1.3 billion cubic meters. At one time Naftogaz joined AGSI+, the data mapping system for the standards of GSE (Association of European Natural Gas Storage Operators).

With the advent of new management, the company began its reform on the background of general reforms in the gas sector. In that time military conflict in Donbass and occupation of Crimea by Russia have led to a deepening economic downturn, which in turn has negatively affected demand for natural gas. The loss of control over a part of the territories, in particular the Crimea, led to a decrease in Naftogaz's resource base due to the loss of promising stocks. SOE has lost its production assets of the subsidiary Chornomornaftogaz, and the gas in the underground storage in the Crimea belonging to company and the assets of other subsidiaries. Recession, devaluation, and blow to the real sector as a result of hostilities have led to instability in financial markets, the growth of credit risks, and, consequently, the actual closure of the external and internal capital markets for Ukrainian companies. This significantly limited the possibilities of Naftogaz to refinance debt obligations and increased dependence on public funding. The reaction of Naftogaz that have lost access to the extraction of oil and gas in the Crimea, was a lawsuit against Russia in April 2016. The amount of the claim, according to the words of the Commercial Director of Naftogaz, is over $ 5 billion without interest. With interest, the amount is about $ 7 billion.

It is obvious that improving the financial position of Naftogaz and its affiliated companies has become a consequence of reforms in the energy sector after the Revolution of Dignity. The approaching gas prices to the market level, as well as the reform of corporate governance, which limited the government's ability to manually manage oil and gas state assets, naturally led to greater commercial success for Naftogaz and its subordinate companies.

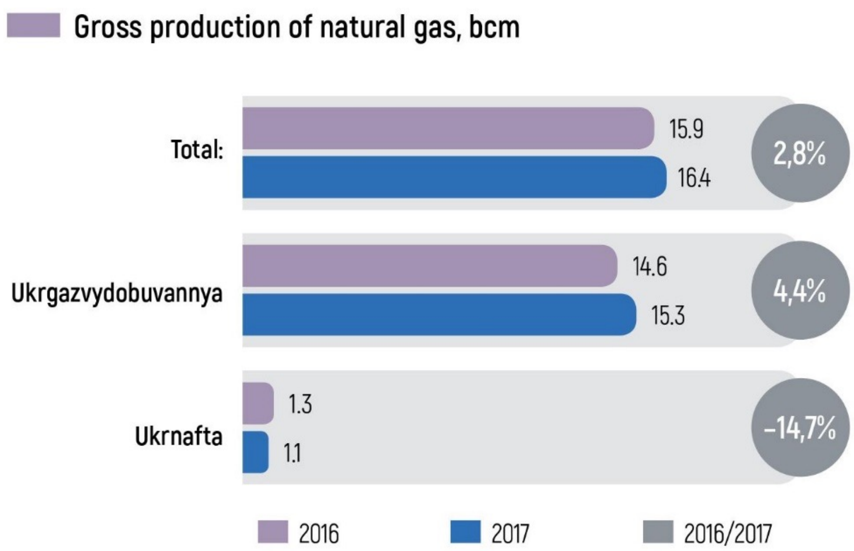
The victory in arbitration proceedings against Gazprom became the main factor in the profitability of the group in 2017 - Naftogaz received the largest profit for its twenty-year history: UAH 39.4 billion (in 2016, UAH 17.8 billion). Without a positive effect of arbitration in the case of gas transit, the Group would have suffered a net loss of -7.4 billion UAH. Gazprom owes $ 2.6 billion to Naftogaz following two results. after considering a $ 2.1 billion offset, which Naftogaz has already received in the form of gas delivered in 2014. The monetary requirements of Naftogaz in this case amounted to 15 billion dollars. for lack of delivery and underpayment for a transit contract plus interest, while Gazprom put forward counterclaims of $ 0.05 billion on the basis of the lowered price for gas, which this same tribunal established in May and December 2017 in arbitration proceedings under a purchase contract - sales of gas At the same time, the referees dismissed Gazprom's claims for more than $ 56 billion. in accordance with the provisions of "take or pay", which was declared invalid. The minimum annual volume of gas that Naftogaz is obliged to buy during 2018-2019 is reduced from 41.6 billion cubic meters. m to 4 billion cubic meters. m, which will save Naftogaz 21.2 billion dollars.

The arbitration award confirmed the legal obligations of Gazprom for deliveries under a transit contract, which will strengthen Naftogaz's position in the future. The transit contract was concluded for the period from January 2009 until 2019 inclusive. The agreed contractual volume of transit accounts for a large part of Europe's gas needs, so this contract is important for European consumers and consumers. Naftogaz expects transit to Europe to continue.

The arbitration award under the contract of sale also allows Naftogaz to pay $ 1.8 billion. less gas purchased in 2014 and 2015, compared to the old contract price. According to Naftogaz, based on current prices, the revision of the contract price will also reduce the cost of purchasing gas in 2018 and 2019 by more than $ 0.5 billion.

On 21 May 2018, a meeting of Ukrtransgaz shareholders, a subsidiary of Naftogaz, approved the decision to change ownership from public to private. In accordance with the law "On Joint Stock Companies", public and private ownership do not have significant differences in the management bodies, control and disclosure of information. The main difference between a public and a private company is the placement of shares: private company cannot be bought and/or sold on the stock exchange. The decision to change the type of ownership of Ukrtransgaz is not related to the intentions of its privatization. On the contrary, the Law provides for a requirement for the PJSC to withdraw at least 10% of its shares into free circulation. If the Public Company does not meet these requirements, it needs either to hold an additional issue of shares, or to sell their share in free circulation. This requirement does not apply to PrJSC. Therefore, in order to avoid the withdrawal of Ukrtransgas shares in free float, it was decided to change the type of JSC of this company.

Key indicators of Naftogaz provided by annual report of the company:



	Natural gas, bcm	Oil and gas condensate, million t	Natural gas (million barrels of oil equivalent)*	Oil and gas condensate (million barrels)*
Naftogaz **				
proven developed	-	-	-	-
proven undeveloped	-	-	-	-
probable	-	-	-	-
production of hydrocarbons	-	-	-	-
increase in hydrocarbons reserves	-	-	-	-
Reserves as of 31.12.2017	-	-	-	-
Resources as of 01.01.2017	104.85	15.21	620.43	110.71
resources located in the ATO zone and theannexed territory	104.85	15.21	620.43	110.71
Resources as of 01.01.2016 (excluding the ATO area and the annexed territory)	-	-	-	-
Ukrgazvydobuvannya				
proven developed	205.80	4.18	1 218	37.60
proven undeveloped	19.76	1.18	117	10.90
probable	40.92	2.01	242	16.70
production of hydrocarbons in the second half of 2017	7.77	0.23	46	1.67
increase in hydrocarbons reserves in 2017	15.40	0.24	91	1.75
Reserves as of 31.12.2017	274.10	7.38	1 622	53.71
Resources as of 30.06.2017	**186.20**	**6.40**	**1 102**	**48.40**
Ukrnafta				
proven developed	14.52	14.48	85.89	105.39
proven undeveloped	7.50	9.66	44.38	70.31
probable	10.72	16.28	63.46	118.50
production from 01.07.2016 till 31.12.2017	1.75	2.10	10.37	15.27
increase in hydrocarbons reserves from 01.07.2016 till 31.12.2017	-	-	-	-
Reserves as of 31.12.2017	**30.99**	**38.32**	**183.36**	**278.94**
Resources as of 01.01.2017	18.16	84.73	-	-
Egypt				
proven developed	0.76	1.20	4.50	8.76
proven undeveloped	0.30	0.91	1.78	6.61
probable	0.47	0.80	2.80	5.82
production of hydrocarbons	0.51	0.92	3.02	6.71
Reserves as of 31.12.2017	**1.04**	**2.05**	**6.12**	**14.95**

Resources as of 01.01.2017	0.96	2.43	5.67	17.66
Group				
proven developed	221.08	19.86	1308	151.75
proven undeveloped	27.73	11.63	164	87.03
probable	52.15	19.21	309	141.92
production of hydrocarbons	9.53	2.39	56	17.42
increase in hydrocarbons reserves	16.44	2.29	97	16.69
Reserves as of 31.12.2017	**307.86**	**50.61**	**1822**	**379.97**
Resources as of 01.01.2017***	**205.32**	**93.56**	**1215**	**681.09**

Core mandate & Missions

According to the mission, Naftogaz sees itself as the driving force behind reform of the Ukrainian gas market and creation of a competitive business environment based on European best practices. The company is committed to ensuring security of gas supply for Ukrainian and European consumers and strives to do it on appropriate terms and in a financially sustainable way.[3]

As part of its mission, Naftogaz succeeded to open the Slovak route and find alternative suppliers and funds for purchasing gas, producers from the US, EU and China are participating in tenders announced by company. Also Naftogaz is in process of TSO unbundling in a way that would ensure significant use of the system's capacity and non-discriminatory access for all players that will create competitive business environment.

What Naftogaz have achieved and what has changed in the past four years of reforms[4]:

Before	Now
Gazprom was the only source of imported gas for Ukraine. Naftogaz used to be a debtor to Gazprom and Ukraine was forced into political concessions in order to maintain gas supply.	For more than 1000 days, Naftogaz have been living without Russian gas supplies. Naftogaz is able to purchase gas on transparent nonpolitical terms and conditions from dozens of large Western companies that compete with each other. Gazprom owes Naftogaz USD 2.6 billion.

[3] Official website of NJSC Naftogaz of Ukraine

[4] NJSC Naftogaz of Ukraine annual report

Naftogaz used to be a black hole in the Ukrainian state budget. The state has spent tens of billions of dollars to support the company, but much of that money has been stolen due to inefficiency and corruption in which senior politicians were involved	Naftogaz got rid of corrupt intermediaries, demonstrated record profits and is the largest source of revenues to the state budget, providing about 15% of state revenues in 2017.
Being a guaranteed supplier, Naftogaz automatically satisfied the needs of all customers regardless of status or solvency.	Naftogaz provides gas only for social consumers, the segment of commercial consumers has been liberalized.
Gas production was funded by the residual principle, because Naftogaz had to buy significant volumes of gas from Gazprom at an overcharge price, and the sale price to households was 85% lower than the purchasing price.	The price of gas for production units increased, though not up to the market level. Naftogaz transfers more than 98% of the gas selling price.
Accordingly, an extremely low price was set for gas produced by Naftogaz, which, coupled with corruption in procurement, led to a decline of the mining units of the group and the depletion of its resource base.	For the first time in many years, Ukrhazvydobuvannya received new licenses and reached a record level of daily extraction for the last 24 years.
A significant part of the group’s output was taken by socalled joint venture partners who accessed the "partnership" through their po litical relations, failed to fulfill their investment obligations, and most probably were involved in siphoning off money.	Due to a dramatic change in the procurement system, billions of hryvnias were saved. New suppliers and manufacturers now participate in tenders. All joint venture agreements have been challenged in court, seven out of eight have already been terminated, and gas is diverted to the needs of households.
LPG was sold at a low price on the single exchange then controlled by the state’s leadership.	LPG is sold at auctions.
Shebelynka refinery carried out only the basic oil refining process.	Shebelynka refinery has been modernized and switched to the production of Euro-5 fuels.
Purchases of works, goods and services in Ukrtransgaz were nontransparent.	Ukrtransgaz joined ProZorro's purchase system. With the facilitation of the General Prosecutor’s Office, Ukrtransgaz managed to get rid of duty to pay for goods under a fictitious agreement.

The state of filling the UGS was unclear, which gave grounds for Gazprom manipulation.	The information on the company's website about residual volumes of gas in the underground storage facilities is updated on a daily basis.
The loan agreement with the EBRD and the EIB to upgrade the Urengoy–Pomary–Uzhhorod pipeline (UPU) has been blocked for more than five years.	The loan agreement with international financial institutions has been concluded. The German concern Ferrostaal has begun reconstruction of the Bar station, with financial support via a loan from Deutschebank.
Naftogaz was able to influence the work of the transmission system operator and other market players	The unbundling process was launched to separate the TSO function.
Naftogaz did not resist the construction of bypass gas pipelines, did not implement the reforms required to get the EU support and deliberately lost the litigations initiated by Gazprom.	Naftogaz takes every opportunity to defend its interests in the European market, including relations with Gazprom and counteractions related to the bypass gas pipelines.

Dedication, responsibility, accountability and efficiency are claimed to be the main values of Naftogaz as a driver of change in Ukraine’s gas sector.

At the same time, Government as the shareholder of Naftogaz pledges to the company the obligation to ensure the country's energy independence, public interests in the natural gas market and protection of domestic consumers and increase the value of assets managed by the company.

In addition, the State as the founder and sole shareholder of the Company, represented by the Cabinet of Ministers of Ukraine, **by resolution of the Cabinet of Ministers of Ukraine No. 351 dated 26 April 2017**[5] sets out that the key goals and priorities, according to which the state manages the corporate rights of the Company, are the following:

1) ensuring and improving Ukraine's energy security by:

- preservation and development of industrial and personnel potential, resource base; organization and development of geological and exploration works related to the exploration of oil and gas; integrated development of oil, gas and gas condensate resources;
- development and introduction of advanced technology for the extraction and processing of oil, gas and gas condensate;
- preservation of diversification of sources and routes of gas supply;

[5] Resolution of the Cabinet of Ministers of Ukraine No. 351 dated 26 April 2017

- comprehensive stimulation of energy efficiency improvement;

2) ensuring public interest on the market of natural gas and protecting domestic consumers, in particular by decisions of the Cabinet of Ministers of Ukraine;

3) increase in the value of assets managed by the Company, in particular by increasing the investment attractiveness implemented as a result of the following requirements:

- increase of the Company's profitability for the shareholder, namely the state;
- provision of effective and reasonable economic and financial activities of the Company for the long run;
- conducting a reasonable and predictable dividend policy;
- ensuring transparency, reporting and quality disclosure of information about the Company's activities;

4) ensuring the proper contribution to the creation of a competitive natural gas market;

5) acquiring and maintaining the status of the Company as a leading company in the oil and gas sector, which carries out economic activities with due regard to its obligations to the state, society, business partners and employees of the Company;

6) ensuring the implementation by the Company of requirements envisaged in the regulatory legal acts, including in the Law of Ukraine "On the Natural Gas Market", and liabilities assumed by Ukraine in compliance with the Law of Ukraine "On Ratification of the Protocol On Ukraine's Accession to the Treaty Establishing the Energy Community" as well as the relevant international gas and energy treaties.

It means that it is possible to state that the Government has rather clearly formulated the commercial and non-commercial role of the company and defined the company's priorities for further development and reform of the oil and gas market in Ukraine.

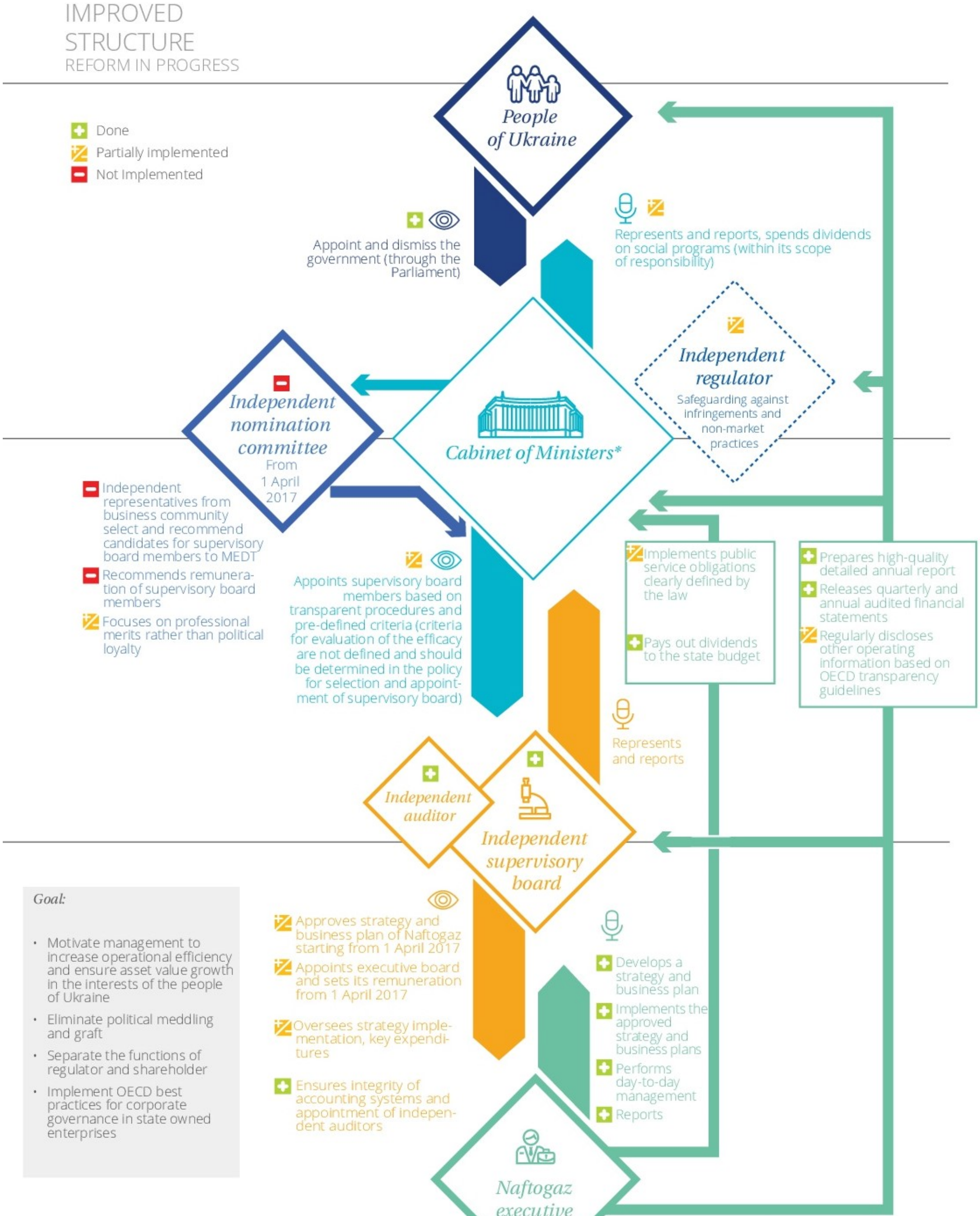
Position within the state system

The State claims itself a founder and a sole shareholder of Naftogaz. In corporate relations, the State represented by the Cabinet of Ministers of Ukraine acts as a shareholder considering the powers provided by the legislation and the Statute of the Company. However, at the time of Naftogaz's foundation, it was subordinated to the Ministry of Energy; it was logical for the Ministry to oversee the entire industry. Then, in December 2015, Naftogaz was transferred to the Ministry of Economic Development. To accelerate the obtaining of loans from the World Bank and the European Bank for Reconstruction and Development, the Cabinet of Ministers approved a plan for Naftogaz's corporate reform. It was developed by international companies Baker & McKenzie and PwC in a project funded by the EBRD. After that, on 22 August 2016, the company became directly controlled by the Cabinet of Ministers. The government has left to the energy minister role which defined the general policy of public administration of the fuel and energy complex and, in particular, the oil and gas sector. At the same time, arose the scandal between NJSC Naftogaz and the Ministry of Economic Development on 7 September 2016 contributed to the attempts to change the company's charter and to withdraw Ukrtransgaz from the management of Naftogaz, thus fulfilling the requirements for unbundling. The Ministry of Economic Development and Trade of Ukraine, using its shareholder right, changed the charter of NJSC Naftogaz of Ukraine, excluding the company's ability to manage its most profitable asset, Ukrtransgaz. This decision was made in contradiction of the corporate governance reform launched by Naftogaz in 2015 and received a $ 500 million loan from the European Bank for Reconstruction and Development (EBRD) aimed at eliminating political influence in the company. At the same time, this decision could not be called a separation of the gas transportation function, because Naftogaz remained 100% a shareholder of Ukrtransgaz, however, could not manage its assets. After that, the Cabinet of Ministers assumed the functions of managing the corporate rights of the state in the authorized capital of the Company.

In June 2016, amendments were made to the legislation on the management of state and communal property objects that gave rise to the reform of the mechanism of managing the state-owned enterprises. The reform of corporate governance of state-owned enterprises was developed by the Ministry of Economic Development and Trade, supported by experts from the EBRD, the World Bank, the IMF and the EC, and went on to the stage of wide implementation. One of the components of the reform was the creation of independent supervisory boards that overcome key personnel and control powers of ministries and government structures.

These independent supervisory boards can appoint and dismiss heads of state-owned companies, evaluate the results of their activities, approve transactions in the amount of 10-25% of the authorized capital, elect an independent auditor, coordinate development strategies and financial plans of enterprises. Naftogaz is guided by the General Assembly, managed by the Board of Directors and overseen by the independent Supervisory Board.

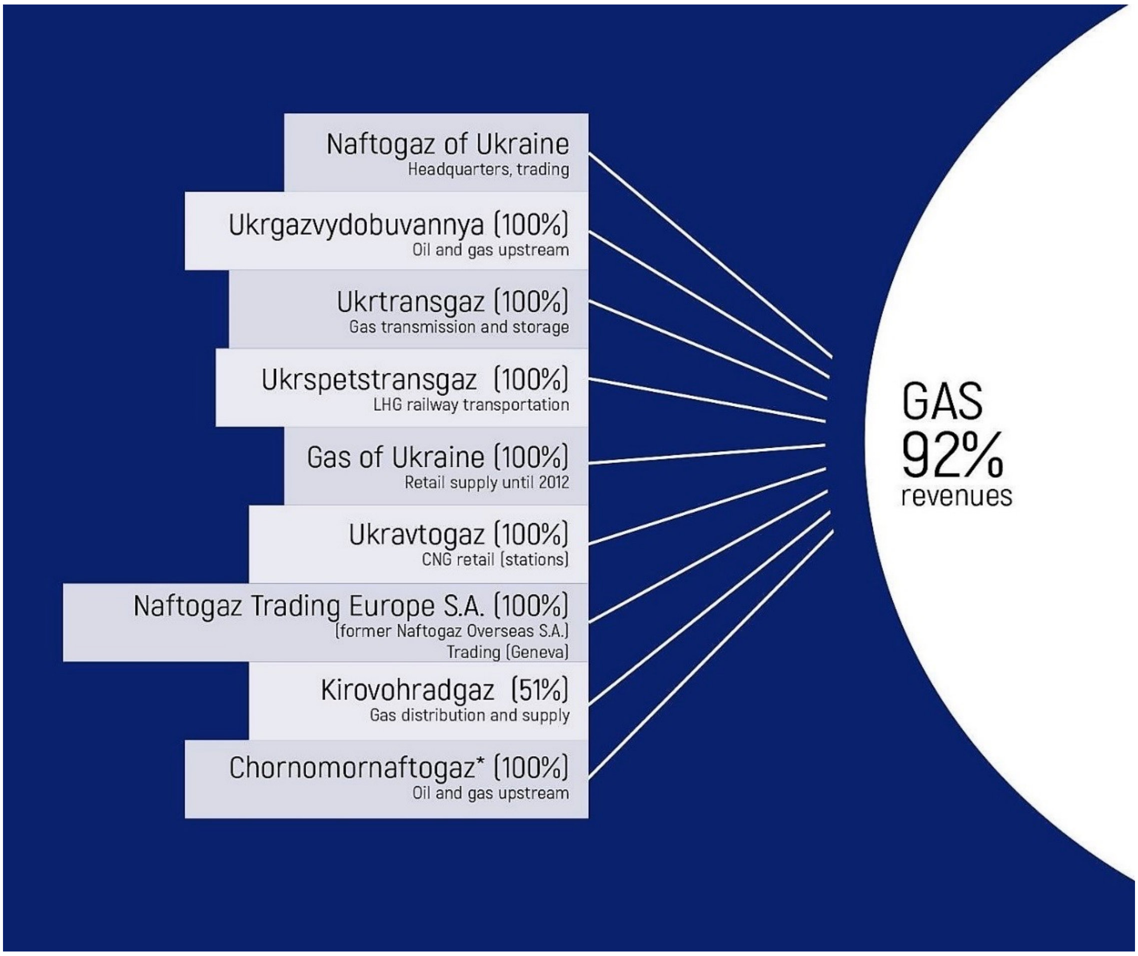
IMPROVED STRUCTURE
REFORM IN PROGRESS



*The government's decision to hand over control of Naftogaz directly to the Cabinet of Ministers was approved on 22 September 2016

Organizational structure

The structure of Naftogaz by industry presented in the annual report as follows:



Production and refinery

- UkrGasVydobuvannya (UGV), a subsidiary
- Ukrnafta (50% + 1), open joint-stock association
- Chornomornaftogaz, state joint-stock association, currently after a corporate raid under control of the Russian authorities as part of the 2014 Russian annexation of Crimea

Transportation

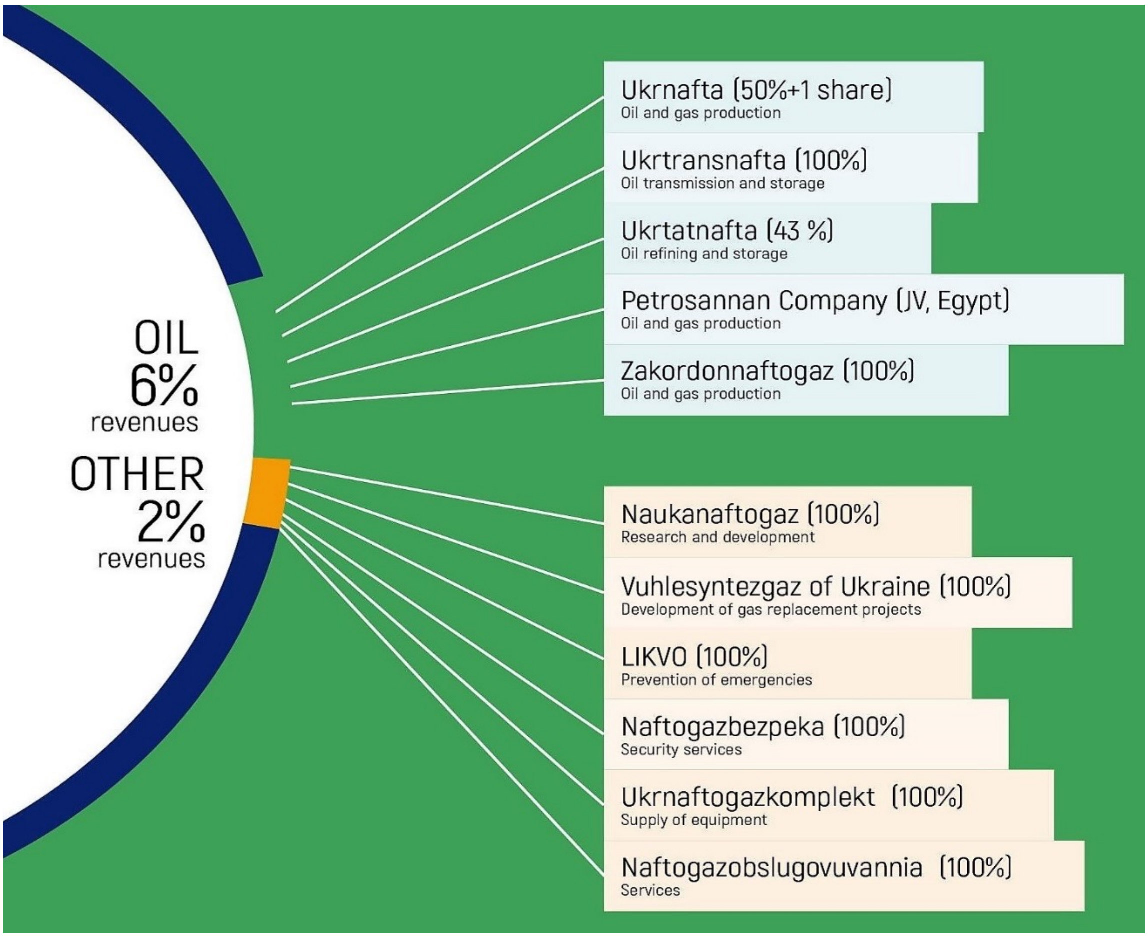
- Ukrtransgaz, a subsidiary
- Ukrtransnafta, open joint-stock association
- Ukrspetstransgaz, state joint-stock association

Distribution

- Gas of Ukraine, a subsidiary
- Ukravtogaz

Subsidiary enterprises

- Ukrnaftogazkomplekt
- Gaz-teplo
- VZP Naftogaz
- LIKVO
- Naukanaftogaz



Accountability

NJSC Naftogaz of Ukraine is a vertically integrated oil and gas company engaged in full cycle of operations in gas and oil field exploration and development, production and exploratory drilling, gas and oil transport and storage, supply of natural gas and LPG to consumers.

The activities of NJSC Naftogaz of Ukraine are governed by the following regulatory legal documents:

Law of Ukraine "On the Natural Gas Market"

Rules of natural gas supply approved by the National Commission for State Regulation of Energy and Public Utilities No. 2496 dated 30 September 2015
Law of Ukraine "On Peculiarities of Access to Information in the Areas of Supply of Electric Power, Natural Gas, Heat, Centralized Supply of Hot Water, Centralized Drinking Water Supply and Water Drainage"
Law of Ukraine "On Openness of Public Funds Use"
Law of Ukraine "On Access to Information in Public Domain"
Law of Ukraine "On Joint Stock Companies"
Law of Ukraine "On Public Procurement"
Law of Ukraine "On Oil and Gas"
Gas Transmission System Code
Gas Distribution System Code
Code of Gas Storage Facilities and Criteria According to Which the Mode of Contractual Access or Regulated Access Mode Applies to a Certain Gas Storage Facility

It should be mentioned that the provision of population, budget-funded institutions and municipal consumers with natural gas at prices set by the state (Resolution of the Cabinet of Ministers of Ukraine On Approval of the Regulation on the Imposition of special duties on the natural gas market players to ensure general public interests)[6] in the process of functioning of the natural gas market is a negative factor that distorts competition in this segment. Given subsidies of about 60% of Ukrainian households and the lack of a clear subsidy monetization system, commercial companies do not have a clear mechanism for returning the difference in the cost of the gas sold through the subsidy system. The system of clearing interbudgetary settlements for subsidies has created billions of budget debts to supply companies that provide gas to the public within the framework of the PSO (public service obligations execution in respect of purchasing gas of domestic production from Ukrgasvydobuvannia and its further resale to specific groups of customers at regulated prices). Such a financial model is a major obstacle to entering the market by new companies and the development of competition.

At the same time, PSOs imposed on NJSC Naftogaz of Ukraine cause significant cash gaps and accounts receivable. Moreover, the company loses a lot of money because of the non-conformity of the fixed price with the market level. Total losses from performing PSOs for the period from 1 October 2015 to 1 April 2017 amounted to UAH 76 billion[7]. This amount includes income not received due to the difference between regulated and market prices, and accounts receivable, which has increased due to the possibilities of the company to collect debts from non-bona fide debtors or to refuse cooperation with unscrupulous buyers. Against the background of it, NJSC Naftogaz of Ukraine and PJSC Ukrgazvydobuvannya appealed to the Cabinet of Ministers with a claim to compensate for losses of UAH 111 billion for gas supplies within the framework of the implementation of PSOs imposed on the

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[6] https://www.kmu.gov.ua/ua/npas/249865173

[7] http://www.naftogaz.com/www/3/nakweb.nsf/0/E9312680B2B45189C22570D8003233B8

companies. According to the calculations of NJSC Naftogaz of Ukraine, from 1 October 2015 to 31 December 2017, the company supplied 40.7 billion cubic meters of gas within the framework of the PSO to its counterparties.

According to the law, the group has the right to be compensated for its economically justified costs by the Government, reduced by the income generated throughout the PSO performance, and taking into account the permissible level of profit. In particular, compensation of Ukrgazvydobuvannya is estimated at UAH 74.8 billion, lost profit – UAH 12.1 billion, and the doubtful debt for the supplied gas imposed by the Cabinet of Ministers to NJSC Naftogaz of Ukraine amounts to UAH 24.1 billion as of today. One of the companies imposed by the CMU is Odessa Port Plant. The total debt of OPP to NJSC Naftogaz of Ukraine for the supplied gas amounted to UAH 1.5 billion. Naftogaz is trying to enforce this debt through the court. The company filed the relevant claims against the government in early 2017. The debt of OPP to Naftogaz is divided into two parts. The first part, in particular UAH 147.95 million occurred in the summer of 2016, before the CMU obliged NJSC Naftogaz of Ukraine to supply gas to OPP. The second part of the debt was formed in the period of October to December 2016 – after the CMU had imposed PSOs on Naftogaz on the supply of gas to OPP. The principal outstanding amount is UAH 1.37 billion, fine is UAH 32.3 million, the penalty amounts to UAH 60.24 million, inflation losses and 3% annual – UAH 3.4 million.

Instead, NJSC Naftogaz of Ukraine sees itself as a company that will contribute to the transformation of the market, in particular, to ensuring the competitive prices for natural gas, security of supply, increase in reserves and production due to further strengthening of vertical integration of the company and enhancing control over its structural units. At the same time, the company plans to develop trading, storage of gas and CNG, in the terms of oil – refining, retail sales of fuel and pipeline oil transportation. All these areas were included in the draft Strategy of NJSC Naftogaz of Ukraine presented by its Chairperson A. Koboliev[8].

The mission of Naftogaz and individual corporate goals look like as if it performs functions of a public policy entity or national regulator. In particular, the goal "to ensure competitive prices for natural gas" refers to the activities of the Ministry of Energy and Coal Industry of Ukraine, National Commission for State Regulation of Energy and Utilities and the Antimonopoly Committee, "to ensure the security of energy supply" - the Ministry of Energy and Coal Industry of Ukraine.

In accordance with the charter[9], the Company's goal is to promote structural rebuilding of the oil, gas and oil refining sectors, to increase the level of energy security of the state, ensure the effective functioning and development of the oil and

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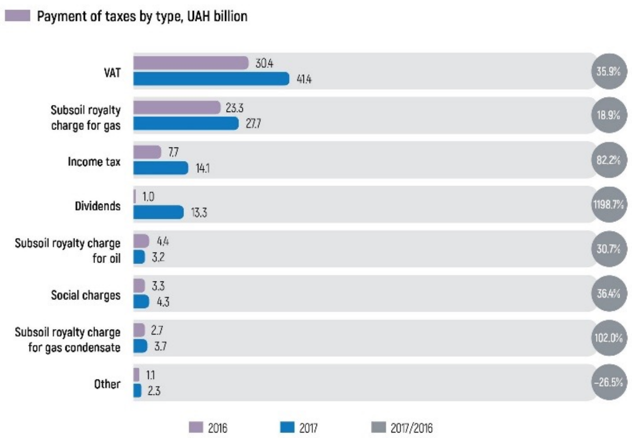
8 http://www.naftogaz.com/files/Information/2017-10-24%20A.Kobolyev_Strategy.pdf

9 http://www.naftogaz.com/files/official_documents/Statut.pdf

gas complex, more fully meet the needs of industrial and domestic consumers for raw materials and fuel and energy resources, and to generate profits.

The main differences in the view of activities of the Government and Naftogaz itself are the desire of the company to strengthen its vertical integration and enhance its presence in different segments of the market, while shareholders (Cabinet of Ministers) want to divide it, separating the functioning of extraction, transportation (requirement of the European Union's Third Energy Package and legislation), storage and trading for increasing competition on the market. And if the requirement of separation of transportation and storage functions is provided at the legislative level and should take place in any case, then other issues remain controversial.



The rules governing tax transfers between state-owned enterprises and the state budget are defined in the Tax Code of Ukraine[10] and the Budget Code of Ukraine[11]. According to Resource Governance Index the Tax Code specifies that property included to property complexes of SOEs can't be used as source for coverage of tax debt (Article 87.3.5). The Code also regulates sale of the property in tax lien (Article 95.9), repayment of tax debt (Article 96). Article 137 of the Tax Code sets the order of calculation and payment of income tax for all enterprises. The Code also defines the basis for taxation for interstate gas pipelines transportation held by Naftogaz (Article 189.16), write-off of tax debt for Naftogaz (as of January 1, 2011, Article 2, section 10).

It is worth noting that at a government meeting on October 19, a decision was made to redistribute 90% of Naftogaz profits for 2018 into the state budget and in the 2019 state budget plan 129 billion UAH of revenues from the Naftogaz group. This amount includes more than 30 billion UAH of income from rent, 46 billion UAH of VAT, more than 20 billion UAH tax on profit, 25 billion UAH of dividends and 7 billion UAH of other proceeds.

Corporate governance

By the Resolution of the Cabinet of Ministers of Ukraine No. 1044 dated 14 December 2016, which approved the charter, regulations on the management board and supervisory board of Naftogaz, the powers of the company's shareholder are

[10] http://zakon5.rada.gov.ua/laws/show/2755-17

[11] http://zakon3.rada.gov.ua/laws/show/2456-17

clearly defined. The state is the founder and sole shareholder of the Company.[12] Functions of managing the corporate rights of the state in the authorized capital of the Company are performed by the Cabinet of Ministers of Ukraine. Every common stock of the Company provides shall shareholder with the same set of rights, including the right to participate in the management of the Company, receive dividends, receive, in case of liquidation of the Company, part of its property or the value of part of the Company's property and obtain information about the Company's business activities. At the same time, at the request of the shareholder, the Company is obliged to provide documents and information to it for familiarization in accordance with the legislation. Instead, the shareholder must comply with the requirements of the charter, other internal documents of the Company, comply with the decisions of the general meeting, other bodies of the Company, their obligations to the Company, in particular those relating to property participation, as well as to pay shares in the amount, under the procedure and using the means provided for in the legislation and charter, must not disclose the trade secret and confidential information on the Company's activities and must not interfere in the operational and business activities of the Company, be granted access to information and documents determined by law, in the manner prescribed by law. It means that the powers and obligations of the company's shareholder are clearly defined and do not include the possibility of political interference in the operational activities of the Company. The Company's interaction with the Ministries and other regulatory authorities is also clearly defined by the law on joint stock companies.

In 2015, the Ukrainian government launched a corporate governance reform at Naftogaz, in accordance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises. These principles regulate relationships with shareholders and stakeholders, requirements for transparency and disclosure of information, distribution and balance of powers of management bodies at all levels as well as other corporate governance issues. As a result of these changes, the Naftogaz's independent supervisory board, for the first time, received unprecedented powers and responsibilities in controlling the company's management board. In particular, the Audit and Risk Committee, the Committee of Ethics and Separation of Natural Gas Transmission, the Committee on Appointments and Fees and the Committee on Occupational Safety, Environmental Protection, Security and Supplies were organized by the supervisory board. The supervisory board also cares about compliance, risk management and corruption prevention.

Nevertheless, starting from April 2017, some members of the supervisory board resigned from their positions because of the lack of progress in completing the corporate governance reform of the Company. On 22 November 2017, the government approved a new composition of the supervisory board of NJSC Naftogaz of Ukraine, selecting six new independent members. The supervisory board of

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12 Resolution of the Cabinet of Ministers of Ukraine No. 1044 dated 14 December 2016 The Issue of National Joint Stock Company Naftogaz of Ukraine

Naftogaz includes: Clare Spottiswoode (Great Britain), Bruno Lescoeur (France), Amos Hochstein (USA) and Steven Haysom (Canada). In addition, the government elected Volodymyr Kudrytskyi (Ukraine) and Serhij Popyk (Ukraine) as the representatives of the state, including Volodymyr Demchyshyn (Ukraine), who is the member of the supervisory board since its formation in the second quarter of 2016. The new supervisory board agreed to the appointment in view of a clear agreement on the shareholder's obligations to resolve the issues related to the delegation of the necessary powers to the supervisory boards of Ukrainian state-owned companies in an appropriate and timely manner. However, as of now, these issues remain unresolved.

As previously mentioned, the Cabinet of Ministers of Ukraine, by its Resolution No. 526 dated 19 July 2017, approved the expected performance indicators of the supervisory board. The list of indicators included the development and submission by the Company for approval to the general meeting of the financial plan, the implementation of the strategy (after its approval) within the powers of the supervisory board, the implementation of the action plan for corporate governance of the Company and effective corporate governance and reporting of the Company and legal entities, of which it is the only shareholder.

Transparency

NJSC Naftogaz of Ukraine is sufficiently transparent and accountable for the disclosure of all information provided by legislation. The company publishes annual reports, financial statements, annual procurement plans, analysis of financial outcomes and information on risk management on the official website. The company also provides reporting for EITI, in the SMIDA system and discloses transactions on the portal using public funds13. The company discloses information in accordance with the information disclosure requirements established by the current legislation of Ukraine as well as under the established standards of OECD for state-owned enterprises. Naftogaz ranked seventh in the global governance rating of state-owned enterprises in extractive industries, according to the US-based Natural Resource Governance Institute report published in June 2017.

The rating of state-owned enterprises covers 74 international oil and gas as well as mining companies owned by governments. These companies account for 82% of global oil and 78% of gas production. Naftogaz was highly ranked with 76 points out of 100. This was forth best result among oil and gas SOEs and best among SOEs in Eurasia (according to the rating's classification). In the same time, the main recommendation for Naftogaz was to improve the disclosure on costs associated with performing its public service obligations.

13 https://spending.gov.ua/

The analyses of law requirements and information that company provide improved its compliance. Company publicly discloses information that meets the following criteria:

1. information is mandatory for disclosure in accordance with the current legislation of Ukraine.

In particular, it is financial and statistical reporting, information on over-threshold procurement of goods, works and services, data subject to disclosure under the law on access to information in public domain, etc.

2. information disclosed by Naftogaz on a voluntary basis:

• information about actions and events that have a significant impact on operating income or assets of the group (may result in a decrease or increase in operating income or assets of the group by more than 10% of the corresponding indicator of the group according to the latest published consolidated annual reporting);

• information about the decision or events that, in the management's opinion, have or may have a significant impact on the implementing any of the key areas of the strategy of the holding company or any of the group's enterprises;

• regular statistical information on the activities of the company, group companies and the oil and gas market of Ukraine (in aggregate or detailed form, according to the company's management's decision), in particular regarding the balance of gas reserves in the gas storage facilities, the transportation of gas through the territory of Ukraine, the volumes of gas production, volumes and cost of imported gas procurement, volumes of gas sales and dynamics of payments for gas from consumers, etc.;

• information about agreements on the supply of goods or services with related parties, i.e. companies that are not part of the Naftogaz Group, but which owners/co-owners are the members of the management board of Naftogaz or the members of the management board of its subsidiaries, except for the cases when such agreements are entered into based on the outcomes of an open tender or bidding in the Prozorro electronic government procurement system;

• information about changes in the composition of the Naftogaz's management board or group companies whose value of assets exceeds 5% of the value of the group assets in the latest published consolidated annual report;

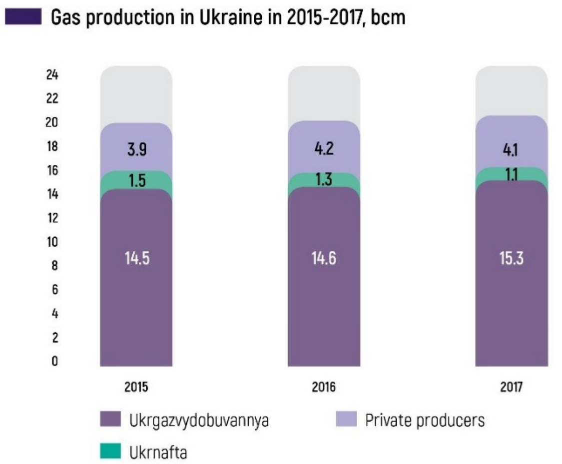
• annual declaration on the property status and income of the head of the management board of Naftogaz;

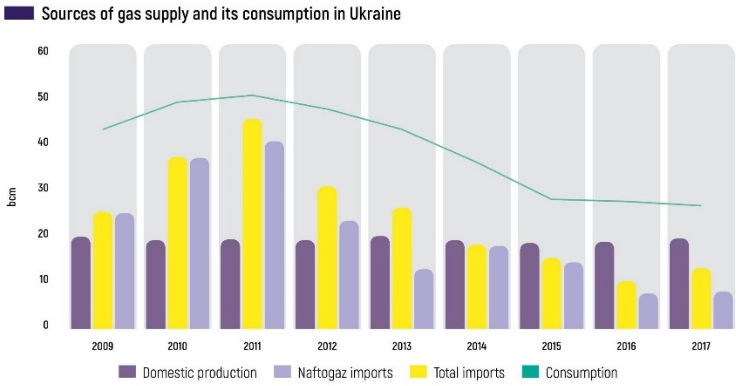
• information that is not relevant to the company's financial indicators or its strategy, but, according to management, has or may cause a significant public response.

At the same time, Naftogaz Group is one of the most active users of the Prozorro, a well-known Ukrainian e-procurement system. Since its official launch in 2016, the group has held 13 thousand open tenders. In order to further increase transparency and standardize the procurement process, Naftogaz adopted a new procurement policy for Naftogaz Group in 2017. As part of the construction of the updated procurement process, Naftogaz continues to plan to improve the quality of the internal control system, introduce categorical management and develop procurement strategies. It is also planned to introduce and use various analytical tools, including system analysis of markets and benchmarking of procurement prices, creation of counterparty databases.

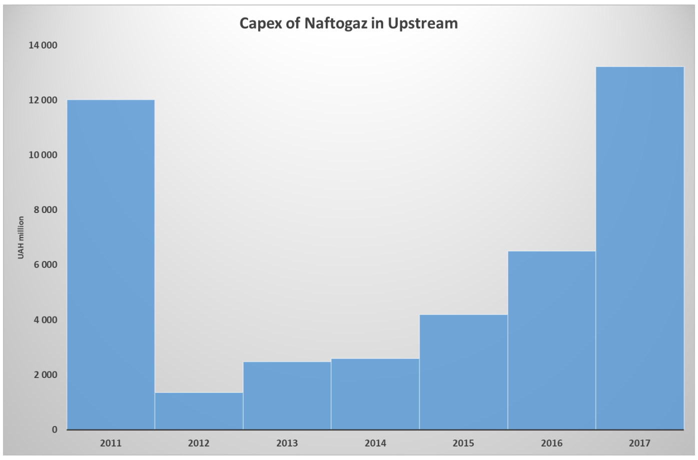
Company performance

The main objective currently assigned to the Company by the Government of Ukraine is laid down in the Concept for the Development of Ukraine's Gas Production Industry[14]. The need for its adoption was caused by a stable reduction of gas production in Ukraine during 2013-2015. According to the statistics of the Ministry of Energy and Coal Industry, natural gas was produced in the amount of 19.9 billion cubic meters in 2015, which is 3 percent lesser than in 2014 (20.5 billion cubic meters) and 7.2 percent lesser than in 2013 (21.4 billion cubic meters). At the same time, according to the annual report of NJSC Naftogaz of Ukraine, country natural gas total production was in the amount of 20.5 billion cubic meters in 2017. At the same time, the share of imported natural gas is 14.1 billion cubic meters based on the outcomes of 2017 and remains high in the country's gas balance and amounts to approximately 44 percent of its total needs. The development of the gas production industry in

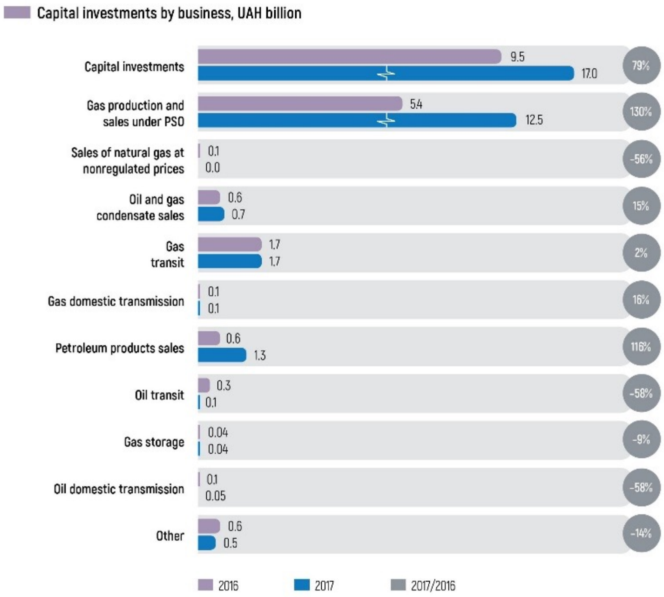




14 http://zakon3.rada.gov.ua/laws/show/1079-2016-%D1%80



Ukraine, taking into account the advanced experience of foreign states, implies an increase in natural gas production volumes in order to reduce its dependence on the import of energy sources and to ensure the country's energy security. At the same time, Ukraine has rich natural gas reserves. As of 1 January 2016, the balance sheet (extraction) natural gas reserves are 924.1 billion cubic meters, total potential resources – 5,608 trillion cubic meters. The provision of natural gas from the aforementioned reserves makes 46 years, which is one of the highest indicators in Europe. Thus, it is expected from the subsidiary of NJSC Naftogaz of Ukraine, namely PJSC Ukrgazvydobuvannya to increase natural gas production in 2020 up to 20.1 billion cubic meters, including through the optimization of operation of the wells



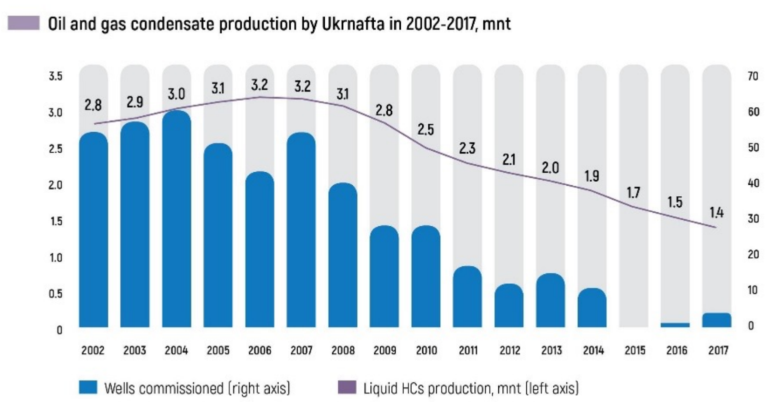
of the operational fund, commissioning of the booster compressor stations, intensification of wells, in particular the hydraulic fracturing, their overhaul, drilling of wells on existing and new deposits. Against this background, PJSC Ukrgazvydobuvannya increased natural gas production in 2017 by 4.4% (645 million cubic meters) compared to 2016, - up to 15.25 billion cubic meters, which is a record for the last 24 years.[15] The company achieved such results due to the implementation of a large-scale hydraulic fracturing program, more than 800 operations for repairing wells, an increase in drilling volumes by 21%, and the commissioning of a super-power well with a production rate of more than 1 million cubic meters of gas. In 2019 Naftogaz planned 43.5 billion UAH of capital investments. Of these - 34.5 billion UAH in gas extraction and 7.3 billion UAH in the gas transportation system. The total volume of domestic extraction to achieve energy independence is expected at 27 billion cubic meters by 2020.

15 http://ugv.com.ua/uk/page/ukrgazvidobuvanna-u-2017-roci-dosaglo-rekordnogo-za-ostanni-24-roki-vidobutku-gazu

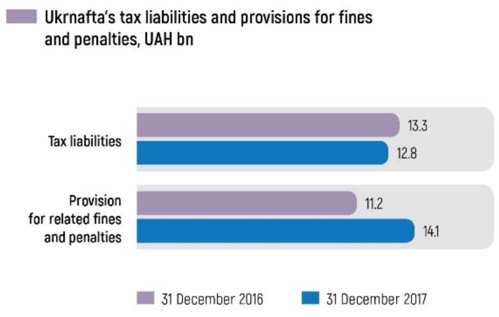
Another important task for the Company, which the company establishes for itself as the goal, is to increase oil production and refining[16]. According to the Company's annual report for 2016 and 2017, the oil and gas condensate production of Naftogaz Group has dropped steadily over the past 10 years and, according to the outcomes of 2017, decreased by 7.6% (by 152 thousand tons), including due to the drop in extraction of the subsidiary Ukrnafta by 9.2% up to 1,379 million tons, having updated the lowest historical figures.

The Company considers the forced stop of extraction due to the suspension of special permits by the State Service of Geology and Mineral Resources and the lower than the minimum amount of capital investment required to implement stabilization programs and increase in production volumes (UAH 710 million, where the planned figure is UAH 2.4 billion) as the main factors of the drop in oil production. At the same time, it should be noted that according to the audit of DeGolyer & MacNaughton, the assessment of liquid hydrocarbon reserves in Ukraine as of 31 December 2017 is 38.3 million tons. Instead, the balance of oil products market in 2016 amounted to 77 percent of import and 23 percent of own production. At the same time, the share of oil products manufactured in the Russian Federation or those manufactured using the Russian raw materials in the structure of import exceeded 80%. 23% of diesel fuel and 2% of motor gasoline were imported directly from the Russian Federation. Another 63% of the first and 91% of the second type of resource came from Belarus and through its territory from Lithuania. In case of blocking or limiting the supply of fuel by the main importing countries, market players are not able to quickly increase supply due to shortage of current assets and excessive lending rates, which has already led to a decrease in the current stocks of retail operators from 17-30 to 7-10 days of consumption.

Thus, an increase in own production and refining of oil is critical for the country's energy security. The largest oil company in Ukraine is PJSC Ukrnafta (subsidiary of NJSC Naftogaz of Ukraine). Its share in the total production of oil with gas condensate in Ukraine in 2017 amounted to 65.7%, and the share in total gas production was 5.3%. As of 1 January 2018, PJSC Ukrnafta holds 82 special permits for the production (industrial development of deposits) of hydrocarbons.



16 http://www.naftogaz.com/files/Zvity/Anual_report_ukr_170608.pdf



Company has the largest tax debt to the state budget. As of 31 December 2017, the company's overdue tax debt amounted to UAH 11.85 billion[17]. This indicator includes the overdue indebtedness of the company itself and its structural units as well as the debt on joint activities. At the same time, the head of the Office of Large Taxpayers informed that according to the findings of the audit by the State Fiscal Service, 90% of the receivables debt to Ukrnafta is the debt of bankrupt enterprises or non-operating enterprises. In the case of auctioning such enterprises for debts in the process of liquidation or their reorganization on the initiative of other creditors with the corresponding change in the owner of Ukrnafta may lose any rights to a significant part of overdue receivables. The loss from operational activities in the same year decreased a little and amounted to UAH 68.2 million. The Company explained the reduction in production in 2017 by the forced stop of production on 6 deposits, where it lost more than 92 thousand tons of oil and condensate and 76 million cubic meters of gas in the period of downtime as well as natural depletion of wells and insufficient level of investments in maintenance, modernization of equipment and drilling. It should be mentioned that oil and condensate production dropped by 9.2% and gas production by 14.8% compared to 2016.

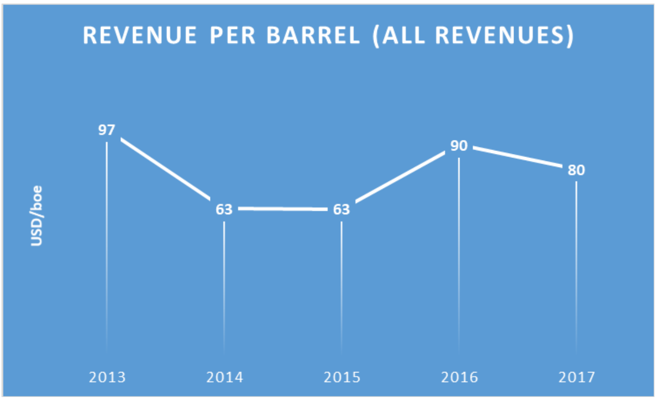
At the same time, the company's activities are accompanied by a number of scandals and accusations of corruption schemes associated with Privat Group. According to the Stock Market Infrastructure Development Agency of Ukraine (SMIDA), major shareholders of Ukrnafta are NJSC Naftogaz of Ukraine holding 50% +1 share, Cyprus-based companies LITTOP ENTERPRISES LIMITED holding 13.6%, BRIDGEMONT VENTURES LIMITED holding 13.6% and BORDO MANAGEMENT LIMITED holding 12.9%. It is worth specifying that the minority shareholders, which are associated with Privat Group, regularly blocked the holding of shareholders' meetings of the company and decisions initiated by the state. So, in May of the current year, the supervisory board of NJSC Naftogaz of Ukraine adopted the decision to audit PJSC Ukrnafta. The key issues of the audit will be the operations for the sale of oil, gas and oil products. Within this audit, the effectiveness of concluded contracts and potential losses will be checked. So, according to the publication by Enkorr[18], there was a withdrawal of funds from the company and questionable practices in the auctions for the sale of oil and LPG in 2015. In addition, the company continued to sell ammonia produced from its gas to Privat Group at a

[17] https://www.ukrnafta.com/audijovana-finansova-zvitnist-pat-ukrnafta-za-2017-rik

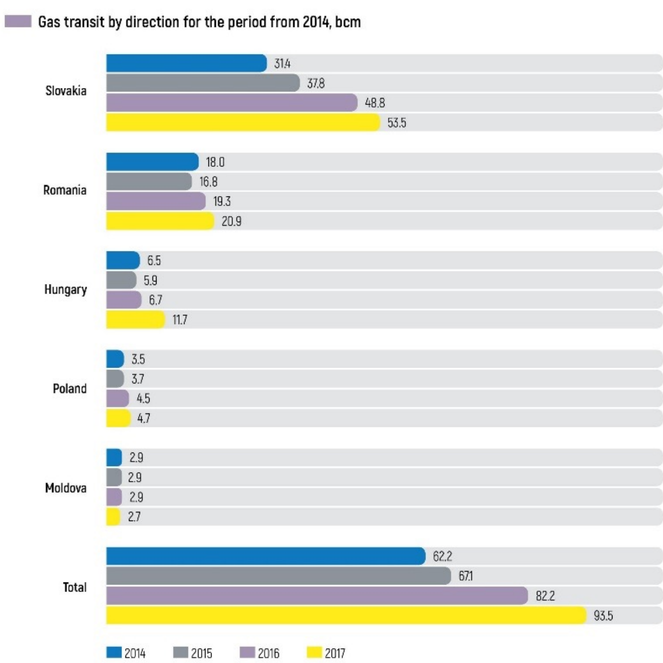
[18] http://enkorr.com.ua/a/news/Naftogaz_naznachil_proverku_Ukrnafti_%E2%80%93_SMI/232564

discount of 20-50% of the market value. Thus, the lack of a solution to the shadow business schemes of the company and the creation of conditions for transparent work will not break the tendency to reduce oil production and solve the issue of tax debt. Transferring profits out of the company so that it doesn't pay as much in taxes and dividends that go back to the state which led to a decrease in revenues to the state budget, the deficit of which in 2015 amounted to 45.15 billion UAH.

Naftogaz, which is a supplier of hydrocarbons for the domestic market of Ukraine and produces oil and gas and gas condensate through its subsidiaries, is also an importer of gas and has a monopoly position for the transportation of natural gas through the territory of Ukraine through the subsidiary Ukrtransgas. The company is primarily a gas producer, while oil production volumes are much lower. According to the materials of NRGI, Bolivia is the closest company in terms of oil and gas sales volumes. In accordance with the financial data of 2017, the volume of oil and gas sales amounted to USD 7.3 million, which is 29% less as compared to 2016. The company is one of the largest payers to the state budget with a total income of 17% of the state's revenues and more than 7% of the country's GDP for 2017. This indicates the great importance of the company for the stability of the fiscal system of Ukraine and its importance in formation of the budget policy. Revenues of the company for each barrel of manufactured products during the same period increased up to USD 80, however has not yet returned to the figures of 2013 (USD 97). At the same time, the level of revenue the company earned per worker was the largest since 2014, USD 141 thousand.[19]



In 2017, the company's equity amounted to UAH 440 billion, or almost UAH 15 billion less than in 2016. The amount of financial liabilities for 2017 decreased by UAH 22 billion compared to 2016, amounting to UAH 78.7 billion. Nevertheless, most of the company's liabilities (62%) are short-term loans, which may negatively affect liquidity. At the same time, Naftogaz Group



estimates the maximum amount of credit risk as of 31 December 2017 at UAH 91.3 billion (31 December 2016: UAH 79.7 billion). According to the information on reporting segments of the report group of NJSC Naftogaz of Ukraine for 2017, the total revenue from sales amounted to UAH 227.5 billion. Of which, UAH 73.9 billion or 43% is the transportation of natural gas. At the same time, the income from the sale of produced and imported natural gas in 2017 for the needs of the population (including heat generation) amounted to UAH 77 billion. It should be mentioned that the margin of the operating cash flow of the business for the production, import and sale of natural gas for the needs of the population (excluding heat generation) in 2017 as compared to 2016, improved considerably, which was mainly due to an increase in the financing of subsidies to population by Government. Nevertheless, during 2016 and 2017, trade accounts receivable for gas sold for resale to the population (excluding heat generation) increased by USD 1 billion because of consumers low payment discipline. Significant accounts receivable and sale of gas at a fixed price below the market one led to a low return on investment in this segment at 4.7% compared to the required 18.7%.

At the same time, the income from the sale of natural gas produced and imported in 2017 to other consumers within the framework of the PSO amounted to UAH 7.6 billion, while consumers beyond the PSO (i.e. at market prices) – UAH 4.1 billion. Taking into account that, in accordance with the Unbundling Plan[20] approved by the Government of Ukraine in 2016, which is aimed at separating activities related to the transportation of natural gas from its production and supply in accordance with the requirements of the European Union's Third Energy Package and the Law of Ukraine "On the Natural Gas Market", Naftogaz will lose 43% of its income from sales. Accordingly, the company faces a significant challenge, which requires quick and effective measures to provide partial compensation for losses after the removal of the largest single revenue stream. Deterioration in the financial position may significantly affect the Company's credit ratings and considerably reduce the possibility of entering external financial markets, and will create a threat of non-repayment of current liabilities, most of which are short-term. In turn, this situation creates risks for the possibility of purchasing by the Company, which is the only supplier of gas for the population, budget-funded institutions and municipal heat and power enterprises, the gas for a safe heating season by PSO and will require the participation of the state regarding repayment of the company's debt to the creditors from the budget. Such a precedent is undesirable both for the company itself and for the state as a whole.

Recommendations

Taking into account the described threat of a significant decrease in the revenues due to the loss of the natural gas transmission segment, NJSC Naftogaz of Ukraine should develop a strategy that will contain clear steps to reduce negative

[20] https://www.kmu.gov.ua/ua/npas/249240258

impacts. First of all, it is the valuation and sale of non-core assets, and the reorganization or sale of loss-making assets. For example, the natural gas storage segment is consistently demonstrating losses year after year. On the one hand, this segment is more likely to be separated along with the gas transmission system in the process of unbundling, otherwise the company will have to revise its work towards profitability or give it for privatization. The same applies to the loss-making segment of oil transportation. At the same time, it should be noted that the supervisory boards of NJSC Naftogaz of Ukraine and PJSC Main Gas Pipelines of Ukraine (MGPU) agreed on a roadmap for cooperation in the separation of functions of the gas transmission system (GTS) operator in Ukraine. The road map stipulates that the process of separating the function of the GTS operator should be completed in early 2020 after the expiration of the current gas transit contract with Russian Gazprom.

At the same time, the Government and NJSC Naftogaz of Ukraine should abandon the practice of regulated pricing for the population, budget-funded institutions and utility customers. Creating market and competitive conditions will, on the one hand, make it possible to choose the supplier of natural gas to consumers, for the other suppliers to enter this market and to reduce losses of NJSC Naftogaz through a reduced regulated price as well as to decrease the company's cash gaps. At the same time, the introduction of market gas prices for all categories of consumers will create opportunities for Ukrgazvydobuvannya to inject additional investments in extraction, which in turn will contribute to the achievement of the goals proclaimed by the Government of Ukraine, on the other hand – it will establish competitive conditions for all market players.

Another important step is to increase the production of natural gas, oil and gas condensate, which, will increase the revenues of the Company accordingly. At the same time, the entry of Naftogaz into new segments, such as retail trade in fuel, may, subject to the sufficiency of investments, show good results in the medium term. However, such steps will require the redistribution of the company's investments and raising capital in foreign markets. This can also be achieved by attracting foreign direct investment in individual segments of the group.

Another important step should be to increase the transparency of operations conducted by PJSC Ukrnafta, to repay its tax debt and to make it impossible to keep using shadow schemes. Improvement of the financial condition of PJSC Ukrnafta and its bringing to the stable profitability will reduce the financial burden on NJSC Naftogaz of Ukraine and facilitate the expansion of the Company to the retail market of oil products.

Thus, the execution of these steps will, if not completely mitigate the effect of separating the transport function, then at least partially reduce financial losses and demonstrate the reliability and stability of the Company's work to investors.

At the same time, the aforementioned structural reforms of the company must be publicly discussed and obtain support of the public to avoid contradictions with the Government of Ukraine.