

**Joint Stock Company "Ukrtransgaz"
Support to Ukrtransgaz Project
Implementation Unit under the European
Commission-World Bank Trust Fund II
for Policy Advice to Ukrainian Gas Sector
Reforms and Infrastructural Support to
Modernization of the Gas Transportation
System Project**

Special Purpose Project Financial Statements
for the Period from 1 January 2019
to 31 July 2019

**JOINT STOCK COMPANY "UKRTRANSGAZ"
SUPPORT TO UKRTRANSGAZ PROJECT IMPLEMENTATION UNIT UNDER
THE EUROPEAN COMMISSION-WORLD BANK TRUST FUND II FOR POLICY ADVICE TO
UKRAINIAN GAS SECTOR REFORMS AND INFRASTRUCTURAL SUPPORT
TO MODERNIZATION OF THE GAS TRANSPORTATION SYSTEM PROJECT**

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**JOINT STOCK COMPANY "UKRTRANSGAZ"
SUPPORT TO UKRTRANSGAZ PROJECT IMPLEMENTATION UNIT UNDER
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UKRAINIAN GAS SECTOR REFORMS AND INFRASTRUCTURAL SUPPORT
TO MODERNIZATION OF THE GAS TRANSPORTATION SYSTEM PROJECT**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL
OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

Management is responsible for the preparation of the special purpose financial statements of the project (the "special purpose project financial statements") on Support to Ukrtransgaz Project Implementation Unit (the "PIU") under the European Commission-World Bank Trust Fund II for Policy Advice to Ukrainian Gas Sector Reforms and Infrastructural Support (the "Project") that present fairly the financial position of the Project as of 31 July 2019 and cash flows in designated accounts, sources and uses of funds, expenditure and cost sheet for the period from 1 January 2019 to 31 July 2019, and a summary of significant accounting policies and other explanatory information in accordance with the basis of accounting as described in Note 2.

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information; and
- Providing additional disclosures and supplementary schedules when compliance with the requirements of basis of accounting as described in Note 2 are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the special purpose project financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls;
- Maintaining adequate accounting records that enable to disclose with reasonable accuracy at any time the financial position of the Project, and which enable to ensure that the special purpose project financial statements comply with the basis of accounting as described in Note 2;
- Maintaining accounting records in compliance with the Ukrainian legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the period from 1 January 2019 to 31 July 2019 were approved by the Company's management on 29 November 2019.

On behalf of management:



Oleksiyenko S. O.,
Acting President



Mykhalevych, O. T.,
Deputy Chief Engineer

INDEPENDENT AUDITOR'S REPORT

To Management of Joint Stock Company "Ukrtransgaz":

Opinion

We have audited the special purpose financial statements of the Project on Support to Ukrtransgaz Project Implementation Unit (the "PIU") under the European Commission-World Bank Trust Fund II for Policy Advice to Ukrainian Gas Sector Reforms and Infrastructural Support to Modernization of the gas transportation system of Public Joint Stock Company "Ukrtransgaz" (the "Company") under Joint European Commission – International Bank for Reconstruction and Development (the "IBRD"). Facility to Ukrainian gas sector reforms and infrastructural support to Modernization of the gas transportation system (the "Project") financed by the European Union grant funds (Grant # TF0A4498), whose beneficiary is the Company. These special purpose project financial statements comprise the special purpose statement of designated accounts, the special purpose statement of sources and uses of funds, the special purpose statement of expenditures, and the special purpose statement on cost sheet for the period from 1 January 2019 to 31 July 2019, and a summary of significant accounting policies and other explanatory information (the "special purpose project financial statements"). The special purpose project financial statements have been prepared in accordance with the basis of accounting described in Note 2.

In our opinion, the accompanying special purpose project financial statements for the period from 1 January 2019 to 31 July 2019 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), together with the ethical requirements that are relevant to our audit of the special purpose project financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The accompanying special purpose project financial statements are prepared to assist the Company in complying with the requirements of the IBRD on implementation of the Project. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by management of Joint Stock Company "Ukrtransgaz" in communicating to the IBRD about the Company's compliance with the basis of accounting described in Note 2. This report is not intended for the benefit of the IBRD or any other third parties and we accept no responsibility or liability to any party other than the Company in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Arrest of the Company's Accounts

We draw attention to Note 6 to the special purpose project financial statements, which describes the information on arrest and write-off of Company's cash from the designated accounts based on a court ruling. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Project Financial Statements

Management is responsible for the preparation of the special purpose project financial statements in accordance with the basis of accounting described in Note 2 and for such internal control as management determines is necessary to enable the preparation of the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

LLC, Deloitte & Touche USC

29 November 2019


**JOINT STOCK COMPANY "UKRTRANSGAZ"
SUPPORT TO UKRTRANSGAZ PROJECT IMPLEMENTATION UNIT UNDER
THE EUROPEAN COMMISSION-WORLD BANK TRUST FUND II FOR POLICY
ADVICE TO UKRAINIAN GAS SECTOR REFORMS AND INFRASTRUCTURAL
SUPPORT TO MODERNIZATION OF THE GAS TRANSPORTATION SYSTEM PROJECT**

**SPECIAL PURPOSE STATEMENT OF DESIGNATED ACCOUNTS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

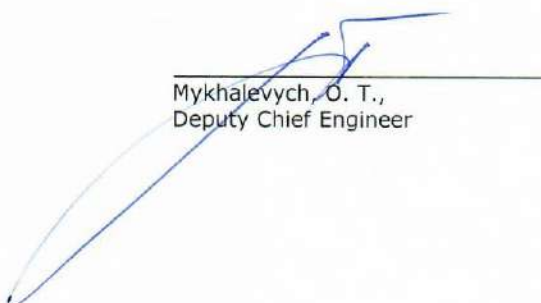
In Euro

Opening balance as of 6 June 2017	-
Movements on designated accounts during the period:	
Transfers from the grant account to designated accounts	96,000
Bank charges	(214)
Expenditures paid by funds on designated accounts	<u>(61,058)</u>
Net change in cash balance on the account	<u>34,728</u>
Funds arrested and written-off pursuant to the court's ruling (Note 6)	<u>(34,728)</u>
Closing balance as of 31 December 2018	<u>-</u>
Expenditures paid by own operating funds upon the account's arrest	<u>10,133</u>
Grant balance repayable as of 31 December 2018	<u>(24,595)</u>
Expenditures paid by own operating funds upon the account's arrest	<u>24,526</u>
Grant balance repayable as of 31 July 2019	<u>(69)</u>

On behalf of management:



Oleksiyenko S. O.,
Acting President



Mykhalevych, O. T.,
Deputy Chief Engineer

**JOINT STOCK COMPANY "UKRTRANSGAZ"
SUPPORT TO UKRTRANSGAZ PROJECT IMPLEMENTATION UNIT UNDER
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**SPECIAL PURPOSE STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

In Euro

	<u>1 January 2019- 31 July 2019</u>	<u>6 June 2017- 31 December 2018</u>	<u>Total</u>
Financing:			
Direct payments from grant account	-	857,071	857,071
Transfers from grant account to designated accounts	-	96,000	96,000
Total financing	-	953,071	953,071
Project expenditures:			
Consultants' and audit services	22,311	884,886	907,197
Training costs	2,215	12,105	14,320
Operating costs	-	31,485	31,485
Total project expenditures	24,526	928,476	953,002
Unused grant amount at the end of respective period	94,548	94,548	

On behalf of management:

Oleksiyenko S. O.,
Acting President

Mykhalevych, O. T.,
Deputy Chief Engineer


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**SPECIAL PURPOSE STATEMENT OF EXPENDITURES
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

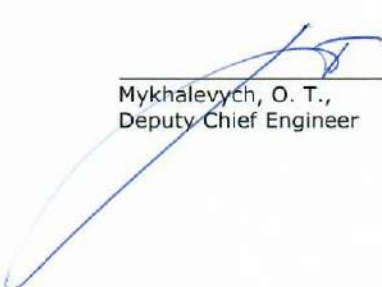
In Euro

	<u>1 January 2019– 31 July 2019</u>	<u>6 June 2017– 31 December 2018</u>	<u>Total</u>
Consultants' services:			
Project consultant's services	-	844,966	844,966
Audit services	8,345	-	8,345
Procurement consultation services	8,286	-	8,286
Translation services	5,680	39,920	45,600
	<u>22,311</u>	<u>884,886</u>	<u>907,197</u>
Training costs	<u>2,215</u>	<u>12,105</u>	<u>14,320</u>
Operating costs:			
Office rent	-	31,170	31,170
Bank charges	-	315	315
	<u>-</u>	<u>31,485</u>	<u>31,485</u>
Total project expenditures	<u>24,526</u>	<u>928,476</u>	<u>953,002</u>
Funds arrested and written-off pursuant to the court's ruling (Note 6)	<u>-</u>	<u>34,728</u>	<u>34,728</u>
Total project expenditures and funds arrested and written-off pursuant to the court's ruling	<u>24,526</u>	<u>963,204</u>	<u>987,730</u>

On behalf of management:



Oleksiyenko S. O.,
Acting President



Mykhalevych, O. T.,
Deputy Chief Engineer

**JOINT STOCK COMPANY "UKRTRANSGAZ"
 SUPPORT TO UKRTRANSGAZ PROJECT IMPLEMENTATION UNIT UNDER
 THE EUROPEAN COMMISSION-WORLD BANK TRUST FUND II FOR POLICY
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**SPECIAL PURPOSE STATEMENT ON COST SHEET
 FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

In Euro

#	Date of payment	Name of supplier	Description of expenditure	Amount
1	20/03/2019	International Training center	Expenses on trainings	2,215
2	05/04/2019	PJSC "Deloitte and Touche USC"	Audit services	8,345
3	16/04/2019	PE Verbitskiy Denys	Translation services	2,347
4	17/04/2019	PE Serdiuk Alevtyna	Procurement consultation services	8,286
5	17/05/2019	PE Verbitskiy Denys	Translation services	3,333
				24,526

On behalf of management:

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Acting President

Mykhalevych, O. T.,
Deputy Chief Engineer

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ADVICE TO UKRAINIAN GAS SECTOR REFORMS AND INFRASTRUCTURAL
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

In Euro

1. BACKGROUND

On 23 March 2009, Joint Declaration on the Modernization of Ukraine's Gas Transit System was signed between the European Commission, International Financial Institutions, including the European Bank for Reconstruction and Development (the "EBRD"), the European Investment Bank (the "EIB"), the World Bank, and the Government of Ukraine with the intent to gradually integrate Ukraine into the single energy market of the European Union.

In December 2014, a loan agreement was signed between the EBRD and Ukraine, as well as a finance agreement between the EIB and Ukraine. The total loan amount on the investment project was up to EUR 300,000,000 and aimed to repair the gas transit infrastructure in Ukraine, in particular, replace four sections of the gas transit pipeline of Urengoy-Pomary-Uzhhorod (the main Ukrainian gas transit pipeline from Russia to Europe), as well as reconstruct the Romny compressor station. Joint Stock Company "Ukrtransgaz" (the "Company") is responsible for implementation of the Project.

The Company applied for financing from the European Union, as represented by the European Commission, for consultancy services to support the Project Implementation Unit (the "PIU") of the Company in their actions toward the timely and effective implementation of "Reconstruction, Capital Repairs, and Technical Re-equipping of the Main Gas Pipeline of "Urengoy-Pomary-Uzhhorod" Project according to the applicable EBRD and EIB rules.

Grant funds in the amount of EUR 1,047,619 were provided by the European Union, as represented by the European Commission, under Joint European Commission – International Bank for Reconstruction and Development (the "IBRD") Facility (Grant # TF0A4498). The IBRD acts as administrator of the abovementioned trust fund.

The Grant's effective date was on 6 June 2017, and its closing date is on 31 July 2019. The Grace period, during which provision of services is not eligible, but payments for services are still allowed, ends on 30 November 2019.

2. BASIS OF ACCOUNTING

These special purpose project financial statements are not general purpose financial statements and are prepared on the cash basis of accounting. The Project's financing is recognized as a source of the Project's funds when the cash is received. The Project's expenditures are recognized as a use of the Project's funds when the payments are made.

The special purpose project financial statements include special purpose statement of designated accounts, special purpose statement of sources and uses of funds, special purpose statement of expenditures, special purpose statement on cost sheet, and explanatory notes. A project balance sheet has not been presented because of zero balance on designated bank accounts, absence of other project assets and liabilities.

The reporting currency is Euro ("EUR"). Items included in the special purpose project financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Project (the "functional currency"). The functional currency of the Project is EUR.

Transactions in other currencies are translated to EUR at the factual exchange rates. Cash balances in other currencies are translated to EUR at the period end exchange rates.

The special purpose project financial statements cover the period from 1 January 2019 to 31 July 2019. Comparative data is presented for the period from the Grant's effective date and till 31 December 2018.

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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

In Euro

3. ACCOUNTING POLICIES

The special purpose statement of designated accounts, the special purpose statement of sources and uses of funds, the special purpose statement of expenditures, and the special purpose statement on cost sheet are prepared on the cash basis of accounting. Financing by sources is recognized when received rather than earned, and expenditures are recognized when paid rather than incurred.

4. FUND WITHDRAWAL PROCEDURES

Funds from the IBRD's account are distributed by means of advances via designated accounts and direct payments to suppliers' accounts.

Designated accounts are represented by EUR and UAH denominated bank accounts opened with Joint Stock Company "The State Export-Import Bank of Ukraine". In accordance with a payment request sent to the IBRD by the Company, the IBRD makes transfers to designated accounts. For reporting eligible expenditures paid from the designated accounts, the Company attaches statements of expenditures to payment requests that follow.

In accordance with a payment request sent to the IBRD by the Company, the IBRD makes direct payments to suppliers' accounts in accordance with the provisions of contracts on purchases of goods and services as approved by the IBRD.

5. OPERATING ENVIRONMENT

The Ukrainian economy is showing signs of stabilisation after years of political and economic tensions. The year over year inflation rate in Ukraine has decreased to 9.8% during 2018 while GDP continued to grow at 3.4%. Inflation rate during seven months ended 31 July 2019 reached 3%.

Also Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhansk and Donetsk regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union ("EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

As part of foreign currency transaction regulations, the National Bank of Ukraine continued its policy of reducing the currency restrictions and decreased share of mandatory sale of foreign currency proceeds from 50% down to 30% with effect from March 2019, and lifted this restriction completely starting from 20 June 2019.

Additionally, the degree of uncertainty at macroeconomic level in Ukraine in 2019 remains high due to significant level of public debt repayments scheduled for 2019-2020 that require mobilising substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. Ukraine also faced presidential elections in April 2019 and extraordinary parliamentary elections in July 2019.

At the same time, Ukraine has demonstrated successful access to external financing in the first half of 2019 improving macroeconomic stability, and shortened electoral period has reduced tension in domestic political environment. All these positive changes resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from "B-" to "B" with positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms and cooperation with the International Monetary Fund ("IMF").

**JOINT STOCK COMPANY "UKRTRANSGAZ"
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 JULY 2019**

In Euro

6. ARREST OF THE COMPANY'S ACCOUNTS AND WRITE-OFF OF THE GRANT FUNDS PURSUANT TO THE COURT'S RULING

Based on a claim from one of the Company's suppliers starting from April 2015 there was a suit against the Company regarding debt collection. By its decision dated 19 July 2016, the Commercial Court of Kyiv Region partially satisfied the claims of the supplier and on 4 June 2018, the state enforcement officer of Law Enforcement Office within the Department of State Enforcement Service of the Ukrainian Ministry of Justice passed a resolution to arrest and levy Company's funds in the amount of the debt, including a law enforcement fee.

The Company filed a counterclaim against the write-off of funds by appealing that the funds on those accounts did not belong to the Company and were granted by the IBRD to meet the requirements of the Project. The court rejected the claim upon the pretext that the Company failed to provide evidence that the said accounts held the very same funds granted by the IBRD under the Project. At the date of the write-off, the funds on the accounts amounted to EUR 34,728.

7. SUBSEQUENT EVENTS

Before the Grant's closing date, translation services and procurement consultation services in amount of EUR 19,305 and EUR 5,099, respectively, were received from suppliers under the Project. The costs were paid by the IBRD in October 2019, during the Grace period, through direct payments from the grant account to suppliers' accounts in accordance with the provisions of contracts on purchases of goods and services as approved by the IBRD.

8. APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were approved by the Company's management and authorized for issue on 29 November 2019.