

Naftogaz earned UAH 11.6 billion in profits and generated 19% inflows of Ukraine's state budget: 2018 annual report

27 June 2019, Kyiv — Naftogaz has released its 2018 Annual Report prepared in accordance with GRI standards (core), together with the consolidated financial statements, independently audited by Deloitte.

The auditor made no qualifications regarding Naftogaz' financial data for 2018. The report is available in [Ukrainian](#) and [English](#) at the group's website.

Naftogaz remains the largest contributor to the state budget of Ukraine

It is the third year running that Naftogaz group has remained the largest net revenue source for the Ukrainian national budget. In 2018, the companies consolidated within Naftogaz group contributed UAH 138.6 billion (USD 5 billion) to the state budget, having accounted for nearly 19% of the Ukrainian budget revenues (UAH 110.0 billion and 15% in 2017, respectively).

This amount includes UAH 29.5 billion of dividends paid by Naftogaz as a 100% state-owned company (2017: UAH 13.3 billion).

Stockholm arbitration decisions materially influenced results for 2017 and 2018

In 2018, Naftogaz generated revenues of UAH 256.3 billion (USD 9.3 billion), operating income of UAH 26.4 billion and net income of UAH 11.6 billion (USD 0.4 billion). The group's net income has decreased by UAH 27.9 billion compared to 2017, mostly due to the effects of reflecting the Stockholm arbitration decisions in both 2017 and 2018.

In 2017, Naftogaz recognized UAH 12.6 billion of net positive effect of the Stockholm arbitration decisions on the group's operating income. In March 2018, Naftogaz recognized expenses of UAH 4.8 billion related to the additional VAT paid by the group in relation to the awards.

The transit contract arbitration award resulted in UAH 43.9 billion inflows (incl. dividends, profit tax and related VAT) from Naftogaz to the state budget of Ukraine in 2018.

In addition to the one-off effects of the arbitration awards, the following factors have influenced the group's results for 2018. The allowance for impairment of receivables increased by UAH 7.0 billion compared to 2017 due to a weaker collection of payments for balancing services. The group has also recognized expenses amounting to UAH 10.6 billion related to the adoption of the IFRS 9 standard and to creation of a litigation reserve.

Naftogaz' organizational transformation is key to unlock the group's potential following the unbundling of the gas transmission function

Following the completion of two major arbitration processes in 2018, Naftogaz has started an organizational transformation. Within this process, the key business areas of the group will be reorganized into functional divisions focusing on gas, oil, technical enabling, transmission and storage activities.

This transformation aims to enable the company to increase its operating efficiency, speed up decision making, improve the ability to adapt to the changing environment. These changes should increase the value the group creates for its shareholders – the people of Ukraine.

The transformation will impact all areas of the company's business. It will support a number of strategic initiatives, which include: expedient and quality unbundling of the gas transmission system operator; economically justified investments in boosting gas production; gas market liberalization and expansion in the retail gas market; increasing return on invested capital. Naftogaz' transformation will continue through a number of the coming years.

The 2018 consolidated financial statements of Naftogaz are available at the group's website in [Ukrainian](#) and [English](#).

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