

Just a commercial matter?

No way!

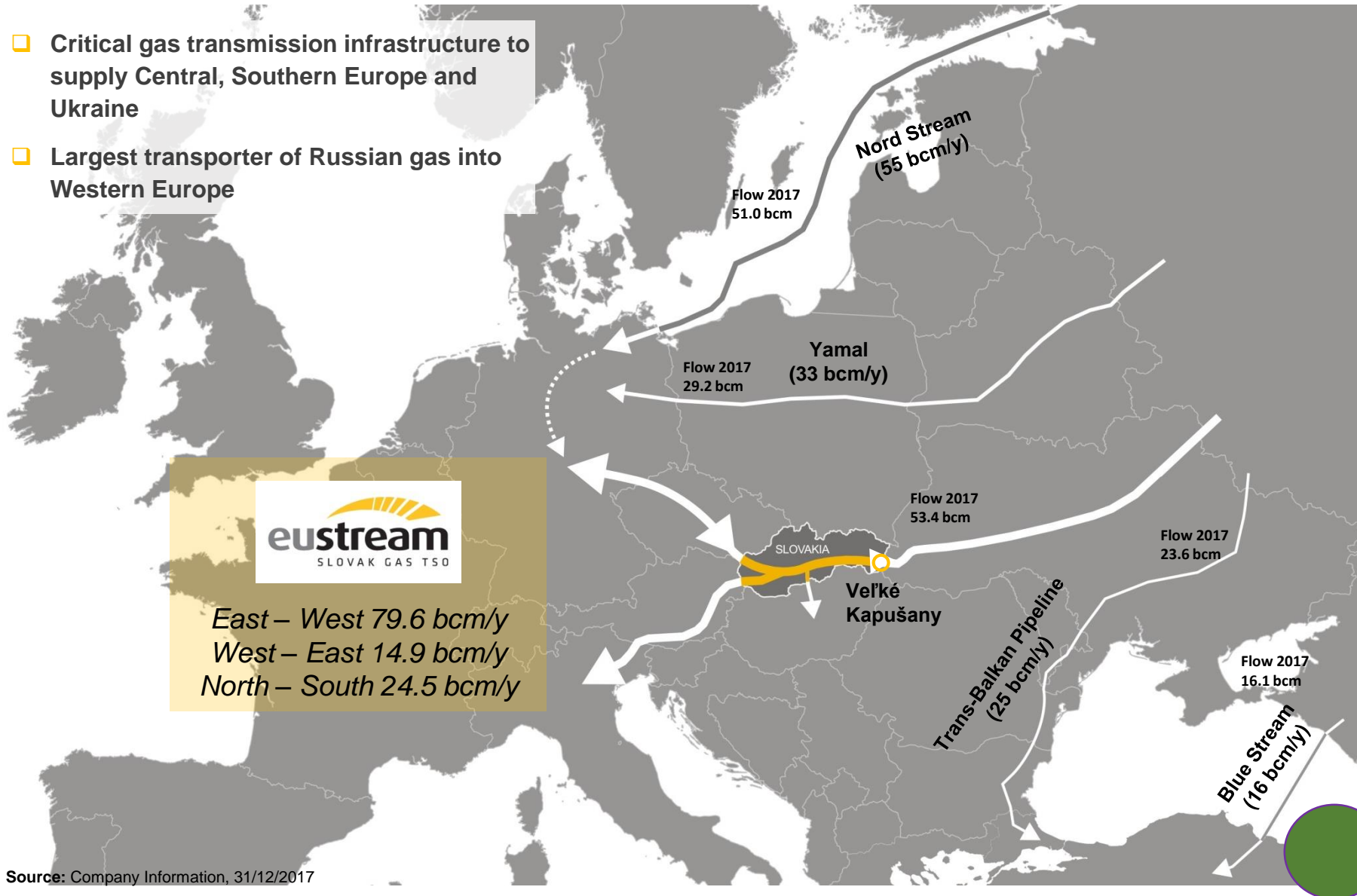
Some thoughts on ensuring UA gas transit



Ex-Prime Minister of the Czech Republic
Ex-President of the European Council
Director of International Development
& Public Affairs and Member of the Board
of Directors Eustream Slovakia

Eustream is a Critical Piece of Infrastructure Serving European Gas Demand

- ❑ Critical gas transmission infrastructure to supply Central, Southern Europe and Ukraine
- ❑ Largest transporter of Russian gas into Western Europe



Threats: Nord Stream 2 Influence on Ukraine Transmission System

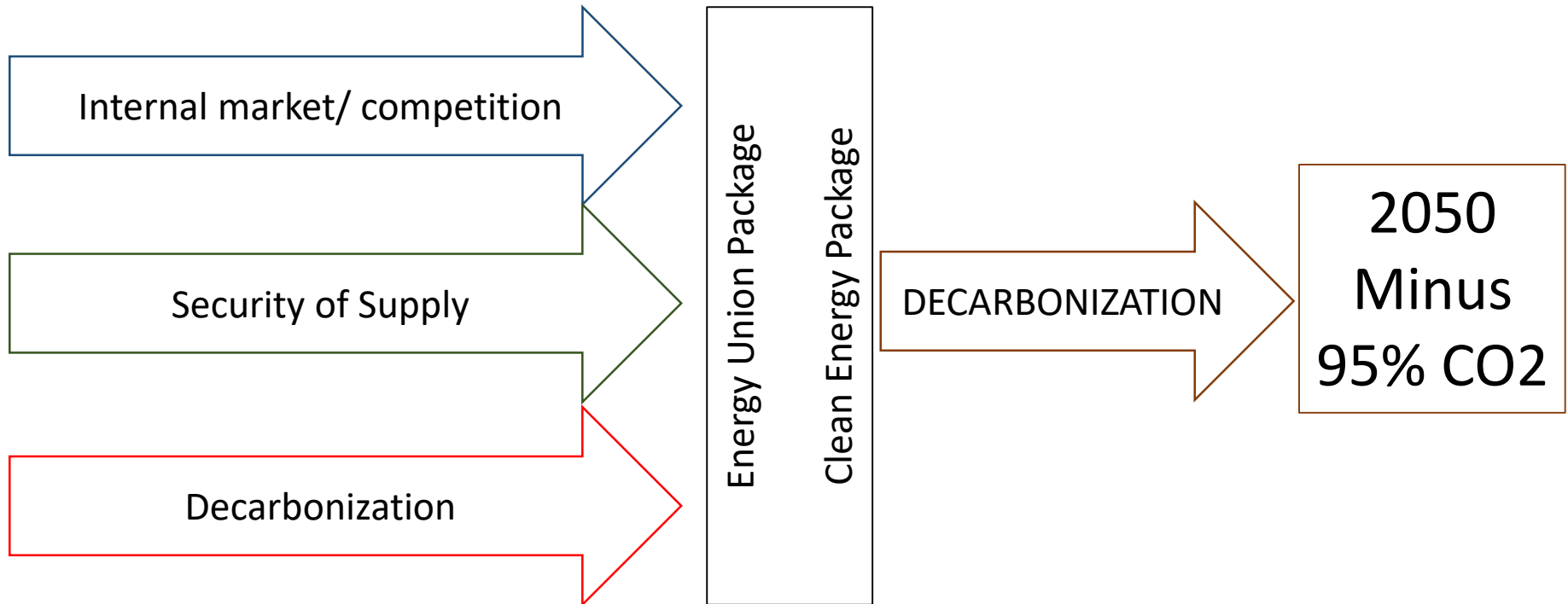
Nord Stream 2 battle:

- Opinion 1: Designed to circumvent the traditional gas corridor through Ukraine
- Opinion 2: Business driven project for new volumes of Russian gas



Threats: Gas in Europe faces challenges

EU energy objectives



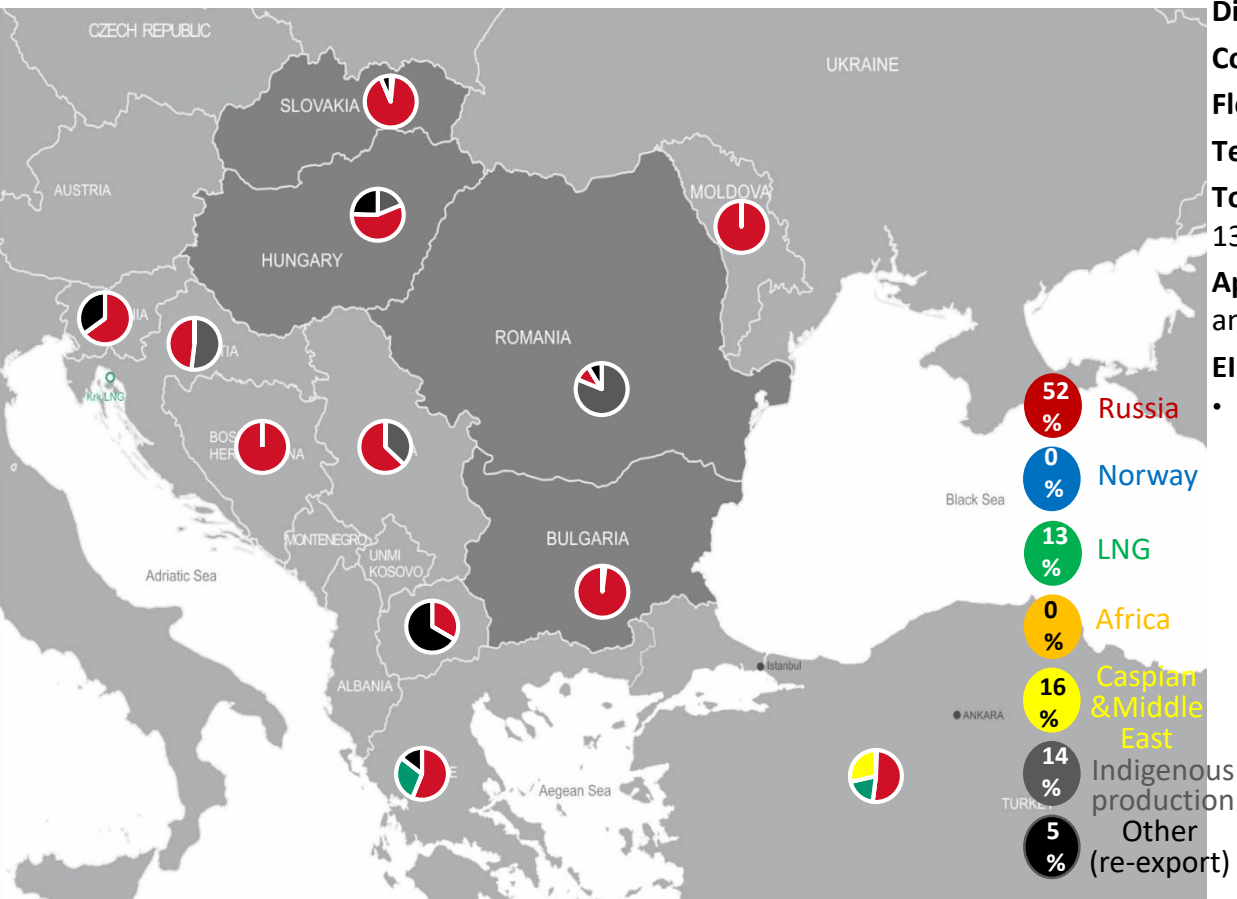
CEE must solve the historical SoS problems, i.e.:

- Finalize infrastructure (North South corridor, LNG terminals, interconnectors)
- Implement properly *acquis communautaire*
- Depoliticize

Otherwise gas is perceived as bad – not only FOSSILE but also UNSECURE

Threats: Region is vulnerable, North South corridor is needed

- Sourcing of the region



Slovak Polish Interconnector

Last month construction started Key Facts

CS1 Veľké Kapušany (SK) – Strachocina (PL)

Length: 164 km (106 km at SK side)

Diameter: DN 1,000 mm

Compression power : 32 MW (16 MW at SK side)

Flow: Bi-directional

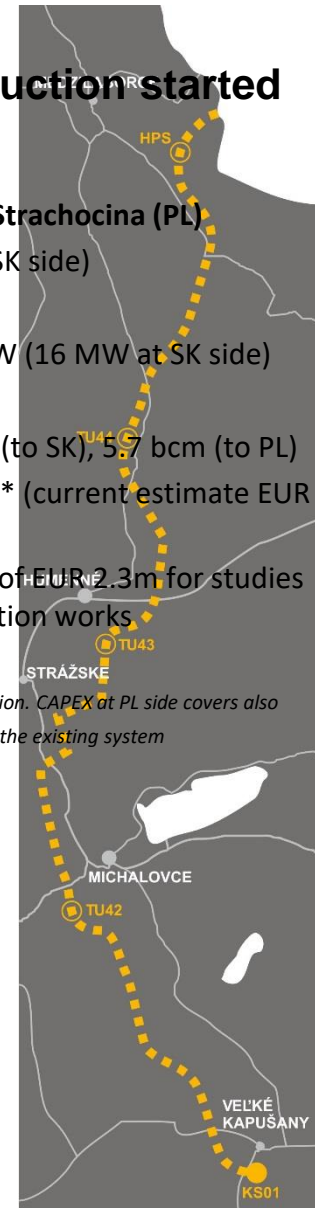
Technical capacity: 4.7 bcm (to SK), 5.7 bcm (to PL)

Total CAPEX: EUR 437.1 mil.* (current estimate EUR 138.1 mil. at SK side)

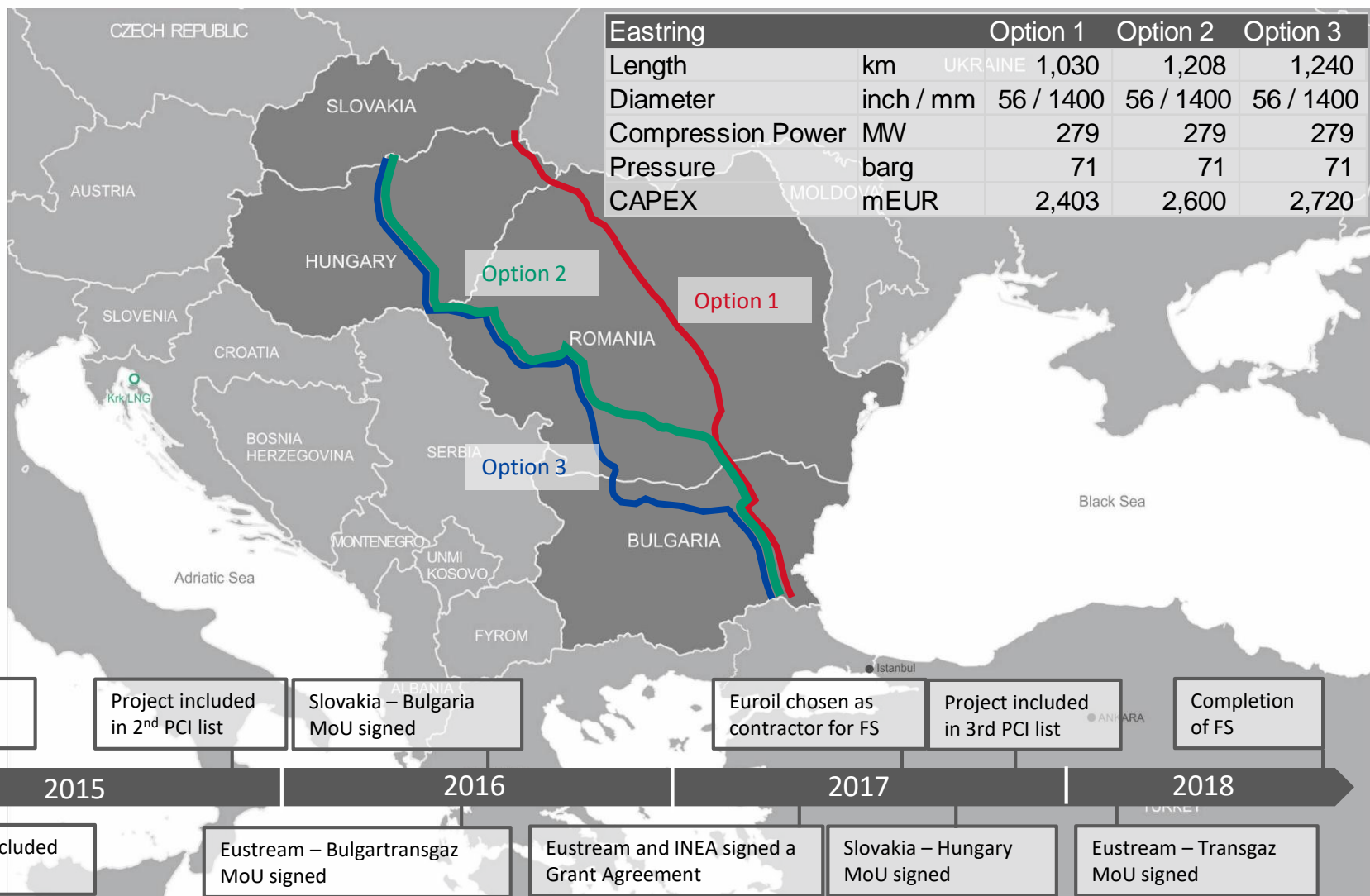
Approved grant: (CEF fund) of EUR 2.3m for studies and EUR 55.2m for construction works

EIB funding: 70 mEUR

- Official CAPEX from CEF grant application. CAPEX at PL side covers also required upgrades and adjustments of the existing system



ROUTING AND TIMELINE – RECENT FEASIBILITY STUDY



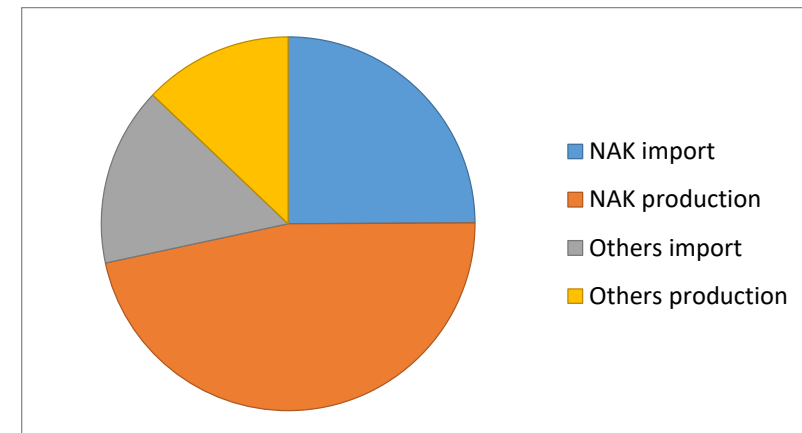
Threats: country is loosing reform pace

Pros:

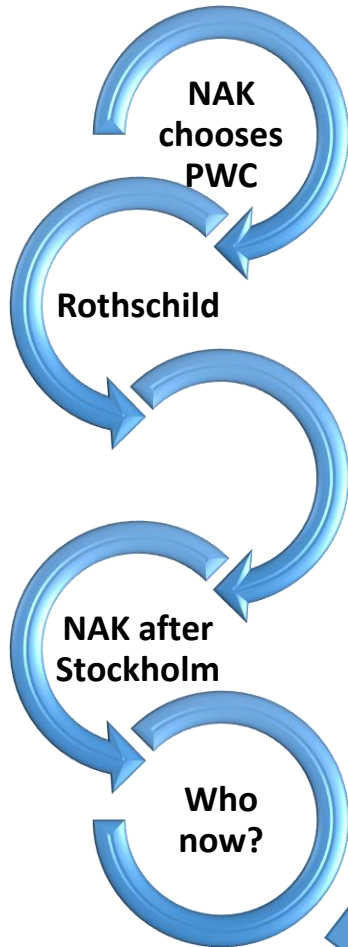
- Ukraine imports gas from Europe
- Big number of importers and suppliers
- EU gas suppliers start open offices in Ukraine
- Daily balancing coming
- Commercial gas stock reserve requirement no longer damaging

Cons

- Legal framework for cross-border trade and storage is still not perfect
- Real regulatory independence and power is not achieved
- **Unbundling of the transmission is not completed yet**
- Retail sector prices under the PSO decree, retail sector is not open for competition
- **Future of gas transit uncertain**

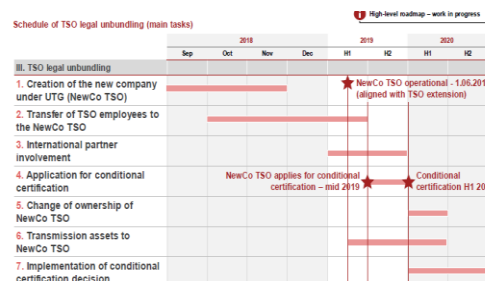
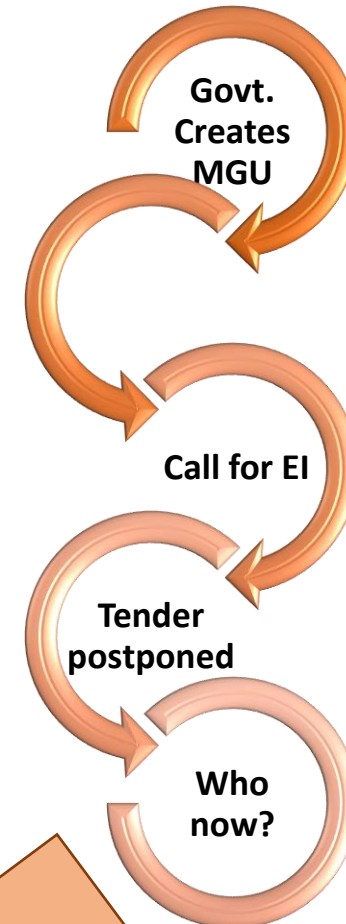


Threat: Unbundling ping-pong



1. One voice from Ukraine is needed.
For the benefit of Ukraine.

2. Decision from Ukraine is needed.
For the benefit of Ukraine.



MGU is now in NAK - real delivery is expected



1. Strategic goal is to conclude long –term agreement on gas transit

- Put highest focus on trilateral negotiation UA – RF – EU
- Aim is to agree with balanced solution, preferably win – win solution
- Unrealistic requests might lead to loss of trust and loss of credibility
- Creditworthiness and trust are assets which Ukraine is painfully and successfully building from 2014.
- They are difficult to build and easy to loose, so they should not be jeopardized by political election atmosphere or short-term priorities (neither political nor financial)
- Geopolitical importance of having UA transit route is obvious. But economical parameters must be OK, otherwise market will decide for bypass.

Conclusion: Goal is the longest possible transit contract after 2019 with standard parameters

Standard parameters are standard level of tariffs, volume which ensures sufficient operation/development and economical viability

Scenarios on gas transit contract

Long term journey

- Balanced parameters
- Reasonable volumes
- Reasonable tariffs
- Long term
- Independent TSO
- Credibility + trust
- Sound basis for further cooperation
- Long term strategical importance
- System can be maintained till export phase of gas

Maximizing short term profit

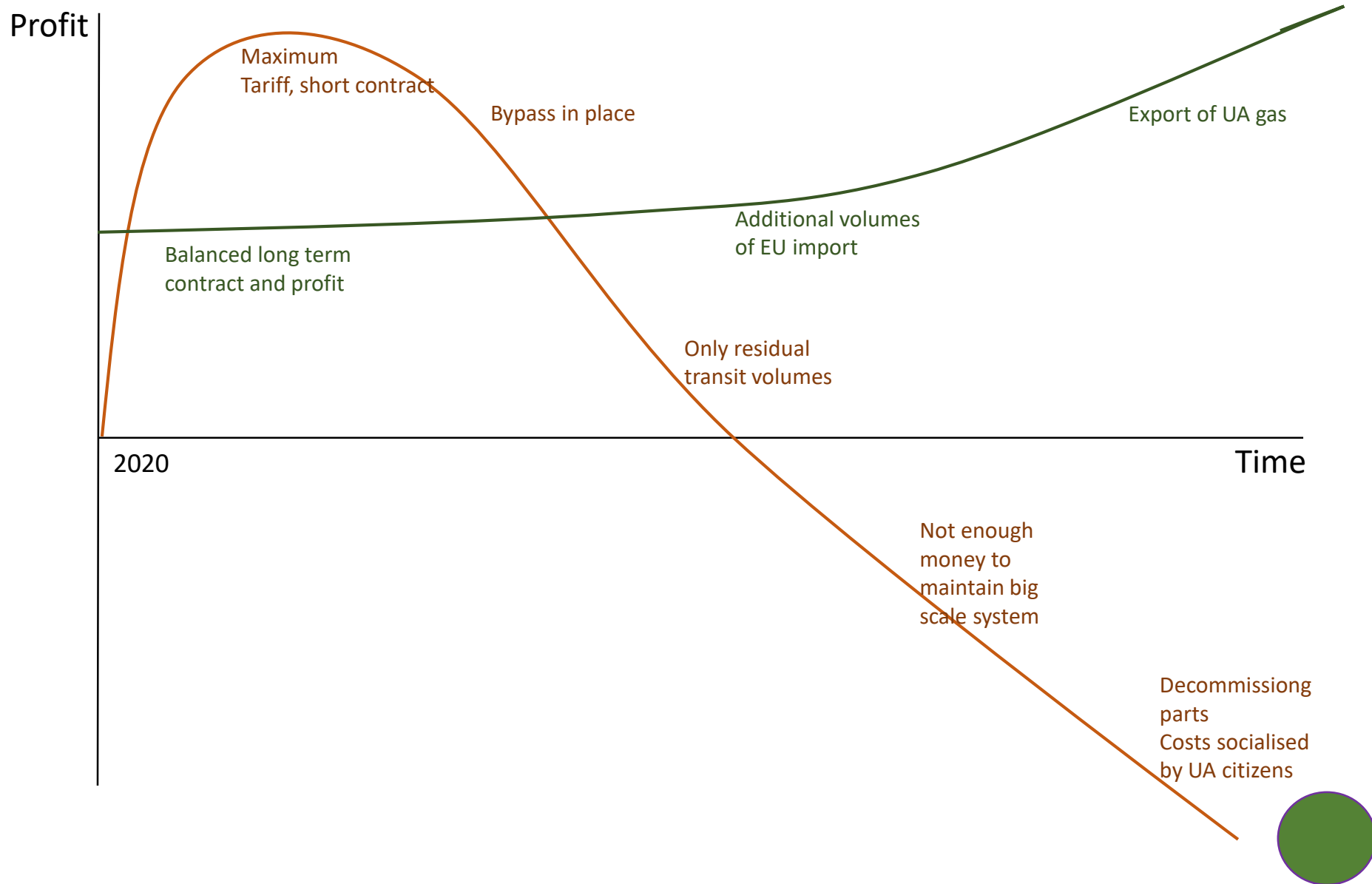
- Imbalanced parameters
- Maximum volume
- Maximum tariffs
- Minimum duration
- Gas transit as a weapon
- No trust
- Support disappears
- Geopolitical risks go exorbitant
- Sooner or later the system is bypassed

Best of both worlds

- Apologies, but miracles do not happen in real life
- Such alternative is hypothetical
- Even if it happens then it will probably combine misuses of previous two alternatives instead of pluses



Possible scenarios and where they go



2. **Eustream is strategically a partner most positively motivated in Ukrainian gas transit success**

- Maintaining UA transit has high value for Slovakia
 - Geopolitical
 - Financial
 - Security of supply and diversification of the market
- Eustream is (was) in consortium with Snam for operatorship of the future unbundled TSO, prepared to provide necessary expertise and support
- In a long run we expect also EXPORT OF Ukrainian gas on this route
- Future of Ukrainian gas sector is in combination of gas transit and gas export
- Eustream heavily invested in bi-directionality of the system + creation of North-South corridor which might serve for export of UA gas
- We see huge chance for gas export of Ukraine and for us it is a way how to ensure profitability of our investment in the gas infrastructure
- We expect from Ukraine concrete constructive steps (not proclamations) on developing gas production and achieving gas export status

Conclusion: **Second goal is increase of gas production and export. Eustream prepared infrastructure for that. For this is urgently needed implementation of transparent and standard legal framework**

3. Internal UA problems are a real threat

- Ukraine needs to speak one voice – Until now MGU vs NAK
- Two years were wasted, especially in unbundling
- Stockholm arbitrage result cannot be universal excuse for non-activity
- Last steps (MGU unbundling roadmap) are welcome but risks are growing as time passes – having effectively one year for unbundling is hazard
- The TSO was expected to be a partner for Russia from the beginning of the negotiations, not as a promise for 2020
- We expect concrete constructive steps (not proclamations) on developing gas production and achieving gas export status from Ukraine

Conclusion: **Having independent TSO in place as soon as possible is a must**
 European TSOs are ready to contribute
 Depoliticize the issue otherwise it will never fly

Final conclusions

1. Eustream is very well positioned and motivated to help, offering its experience and know how. Gas transit through Ukraine is in natural interest of Eustream.
2. Long-term agreement on gas transit must be the goal, nothing else
3. Unbundling and further steps must be done not to loose momentum.
4. Gas export in a long run will be significant added value.
5. Now rapid progress and actions is expected, this might be last call.

