



Unbundling Discussion

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Chair of the Supervisory board

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We are travelling the Reiss and are well on the way to delivering unbundling

December 2018:

Deliver operational TSO in June 2019

March 2019:

Confirmed TSO in June 2019

June 2019:

Operational TSO is up and running

By July TSO LLC will be ready to submit certification request with the Regulator

It will have:

- ca. 10 400 GTS related staff
- org. chart based on WECOM recommendations
- necessary IT environment in place
- 5 secondees from the EU TSOs

It will NOT have:

- GTS assets, as formal approval of CMU would be required for transfer
- service assets not required for certification
- storages, put in a separate branch but there are many legacy problems

Over the next six months Naftogaz will need help with tasks outside of its control

Energy Regulator

Dec '19: To ensure financial viability of the TSO:

Adopt cost reflective tariffs for transmission services

Amend GTS network code to fix balancing problems and allow TSO to recharge losses related to balancing (neutrality charges)

Enable debt collection through courts

CMU

ASAP: Amend the Unbundling Resolution by selecting ISO to retain Stockholm

Dec '19: Transfer conflicting energy producing assets from the Ministry of Energy

Effectively separate control and powers within the government

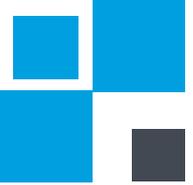
Parliament

Oct '19: Adopt draft concession law package to ensure that UTG can transfer assets to the unbundled TSO

MGU

Dec '19: Ensure proper corporate governance

Be prepared to negotiate and work with Gazprom



What is a TSO

- 1 Provides non-discriminatory third-party pipeline access
- 2 Responsible for operating, maintaining and developing the GTS
- 3 Self-sufficient operationally
- 4 Capital investments are approved by the National Energy Regulator and are financed by the GTS owner
- 5 TSO's decisions on network operations and capital spend are required to be taken independently - who owns the network must be irrelevant

Regardless of which model is pursued, ISO or OU, the customer will not see any operational difference

What are the differences between the ISO and OU

ISO

Ukraine's interests protected in Stockholm arbitration

No need to transfer GTS ownership from the state

Higher chances the Parliament and CMU will legislate

Attractive to GTS Partner

OU

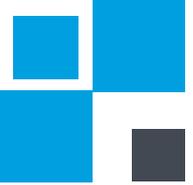
Stockholm tariff revision claim will be removed. Up to USD 14.8bn will be lost

For certification, the Parliament must allow TSO to pledge and dispose assets

The government has never been ready to consider private ownership over GTS

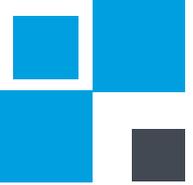
"Commercial use" is not properly defined in the Ukrainian law. Can be withdrawn by the state and does not meet OU criteria

The two above options are the only EU compliant alternatives. Since OU appears unrealistic to us, ISO is the only available option



■ The dangers and mitigation of political risk

- 1 TSO has a monopoly in gas transportation
- 2 Therefore requires oversight to ensure that monopoly power is not abused
- 3 If this oversight is performed by the government, political risk is introduced:
 - Potential political interference, incl. pricing, investments, governance, etc.
 - Customers face uninsurable risks: may not sign contracts or require additional profits to cover extra risks
- 4 Mechanism for avoiding Political Risk is to create a truly independent Regulator:
 - Taking decisions based on facts, evidence and consultations
 - Ensuring TSO is free from political interference but also from vested interests
- 5 OECD-compliant company charter is designed to protect a state owned company against undue political risk



Gazprom will use any deviation from the EU regulations for own advantage - and has already done so

Gazprom used the recent decree of the CMU to justify its rejection to sign the new transit deal with Ukraine on standard European rules

The only way to avoid such situation is to create a high-quality, truly independent TSO with all necessary rights over the gas transmission system and a sustainable financial model.

It is also critical to discuss with the new Parliament the necessary legislative amendments. These discussions should start immediately after the election.