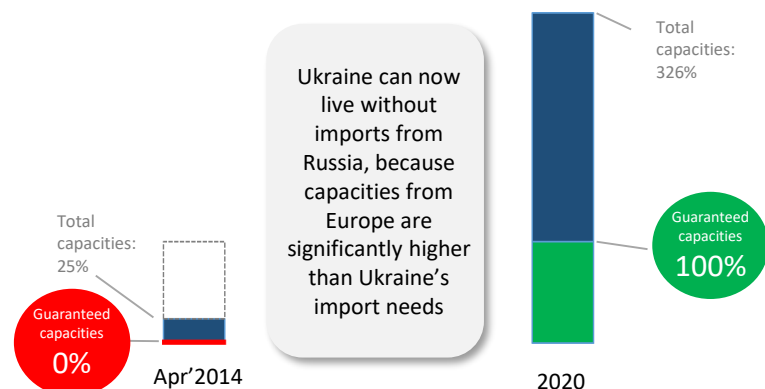


Getting out of the Abyss

Security of supply: Capacities for imports from the EU as % of Ukraine's import needs



Price: Ukrainians are paying gas prices lower than they would otherwise have been

- Avoided weighted average price for residential consumers in Apr'2014-2019 = 414 \$/'000m3 (vs 145 \$/'000m3 factual average price paid by households)
- Avoided average effective import price* in Apr'2014-2019 = 1602 \$/'000m3 (vs 264 \$/'000m3 factual average import price)

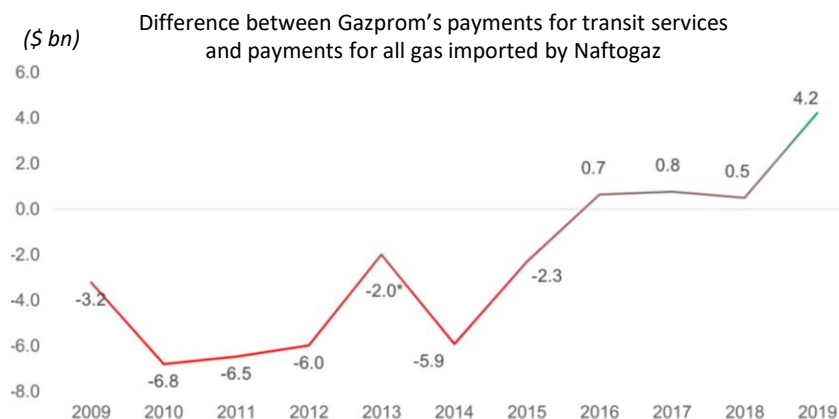
* - recalculated based on the inclusion of costs related to the payment of "take-or-pay" obligations

Transit: Additional transit revenues (≈marginal profit) that we have secured in 2014-2024:

\$ 13 bln

- Compensation awarded in Stockholm arbitration under the Transit contract = \$ 5,0 bln
- Guaranteed (based on "ship or pay" terms) revenues under the new transit contract for 2020-2024 = \$ 7,15 bln
- Additional transit revenues from the reverse import flows = \$ 0,74 bln

We have changed a situation in a way that money goes from Russia to Ukraine



Getting out of the Abyss: Security of Supply

We got rid of the critical dependence on supplies from Gazprom, and without any concessions to Putin managed to provide security of supply of gas to Ukrainian consumers

“So what?”

- Secured warmth at Ukrainian homes, with no interruption of gas transit to the EU
- Industry can work: secured workplaces and contribution to GDP
 - **Otherwise:** either on our knees before Putin negotiating exchanging independence for gas, or some parts of Ukraine will heroically try to live through winters without heating, while other parts will follow the path of Russia-backed separatists, “people republics” in Eastern Ukraine.
- Dignity of Ukrainians, lower country risk, prestige were secured – since we are not critically dependent on Russian gas.
- Example of winter 2014/15, when Russia spent \$ 6 bln on vain attempts to block supplies from the EU to Ukraine, shows such supplies do improve security of supply for Ukraine even though it is a reverse of “Russian gas” that got into Europe.
- In case of interruption of transit of “Russian gas” through Ukraine to the EU, flows of gas in the EU will be rerouted, and Ukraine will be able to get gas from other sources available in the EU.
- European companies avoided penalties for a shortfall in their take-or-pay obligations by selling gas to Ukraine.

Quantitative Effect

- Capacities for imports from the EU were enough to cover 25% of Ukraine’s import needs in 2014 and 326% in 2020 (including guaranteed capacities, which were enough to cover 0% in 2014 and 100% in 2020).
- Decrease in hidden subsidies leading to a decrease in inefficient consumption and lower costs for the State Budget:
 - Value of direct and hidden subsidies decreased from 24% of State Budget in 2014 to 5% in 2019.
 - Almost 2x decrease in residential gas consumption from 2014 to 2019.
- Increase in gas production by 2.2% p.a. in 2016-2018.
- Imports of gas from Russia decreased from 26 bcm in 2013 to 0 in 2016-2019.

Getting out of the Abyss: Price

We significantly decreased the price consumers would have had to pay (and/or the State Budget expenses if the State covered a part of the price)

“So what?”

- Consumer had to pay less for gas, thus keeping more money to spend on other stuff
- And/or more money in the State Budget to spend on defense, social and health care etc.
- More predictable and lower price for industrial consumers
- More competitive economy – economic growth and, again, even more money in the state budget
- Dignity of Ukrainians (proved that Ukraine was overpaying for Russian gas, contrary to Russia’s narrative that it was subsidizing Ukraine)
- We have even contributed to the price decrease in the EU market
- More money for the investments in gas production/energy independence (due to lower transmission tariffs in 2020-2024 compared with a tariff in zero gas transit scenario)

Quantitative Effect

- Avoided price for households and industrial consumers:
 - Avoided weighted average price for residential consumers in Apr’2014-2019 = 414 \$/’000m³ (vs 145 \$/’000m³ factual average price paid by households)
 - Avoided average import price in Apr’2014-2019 = 1602 \$/’000m³ (vs 264 \$/’000m³ factual average import price)
- Avoided costs for Naftogaz:
 - Avoided payment for off-taken and unpaid gas = \$ 2.07 bn
 - Effect from the price revision = \$ 1.76 bn
 - Savings on the supplies from the EU = \$ 2.90 bn
 - Savings on take-or-pay = \$ 73.2 bn
- Current wholesale price in Ukraine is 2.5x lower than the price under old Gazprom’s formula.
- Lower gas transmission tariff in 2020-2024 because on continued gas transit:
 - tariff for gas consumers is 2.4x lower compared with a tariff in zero gas transit scenario
 - tariff for gas producers is 4x lower compared with a tariff in zero gas transit scenario

Getting out of the Abyss: Gas Transit

We made Gazprom pay more for gas transit and to sign a new 5-year transit contract

“So what?”

- Vital revenues for Ukraine: more money in the State Budget to spend on defense, social and health care etc.
- Contribution to the energy security for the EU.
- Lower chances that Russia will wage a full-scale war against Ukraine.
- Dignity of Ukrainians was defended (we have proved that Gazprom was underpaying for transit).
- Ukraine’s reputation as a reliable and less problematic partner.
- Lower country risk.
- We have created the opportunities to earn additional transit and storage revenues, to have a lower import price.

Quantitative Effect

- Compensation awarded in Stockholm arbitration under the Transit contract (\$ 5,0 bln)
- Guaranteed (based on “ship or pay” terms) revenues under the new transit contract for 2020-2024 (\$ 7,15 bln)
- Additional transit revenues from the reverse import flows (\$ 0,74 bln)
- Transit payments in January 2020 were equal to 33% of Ukraine’s State Budget revenues