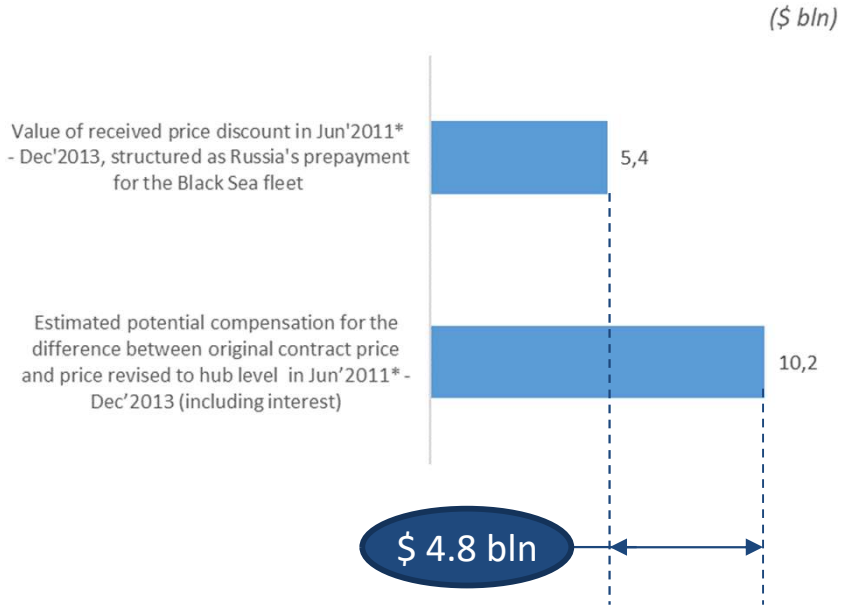
Unrecoverable Losses from 2009 Gas Contracts: Looking from Other Angles

2010 Naftogaz's management could have paid $1.9 bln less for Russian gas if they pursued a price revision through the arbitration instead of non-transparent political deal on Black Sea fleet in Crimea:

Our team could have won higher compensation from price revision in 2014 Stockholm Arbitration, if the prepayment for Black Sea fleet was not explicitly structured in 2010 as a gas price discount:

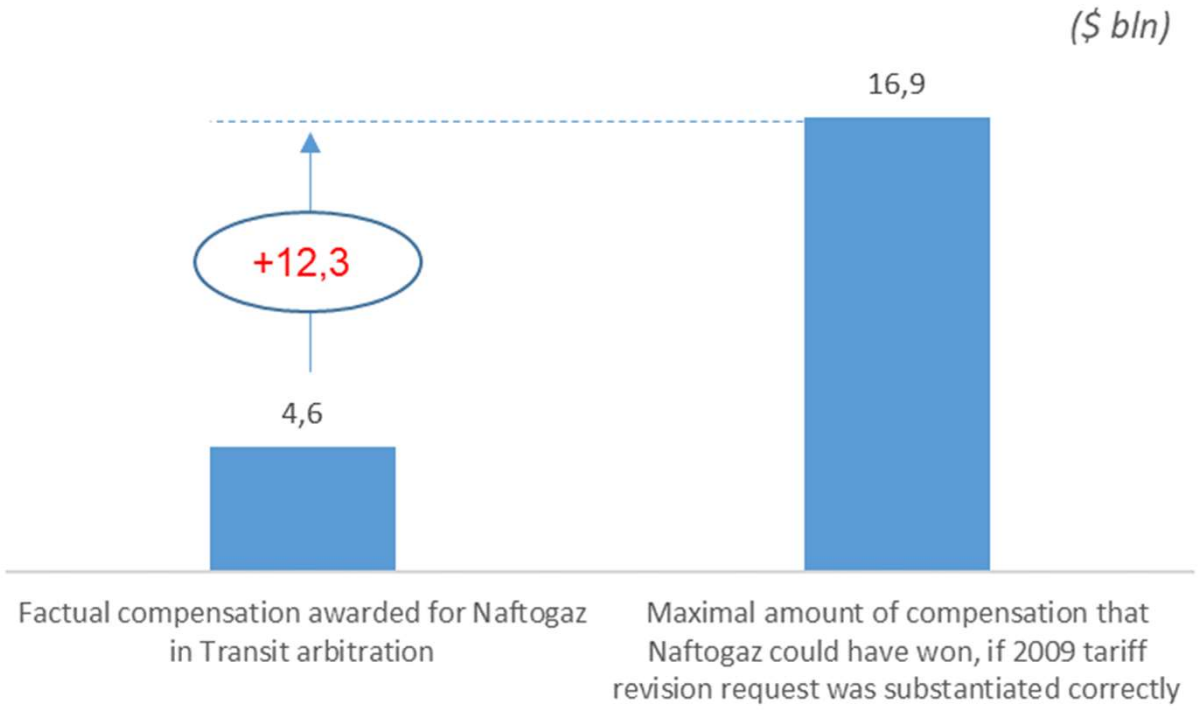


Sources:

- *Internal data of NJSC 'Naftogaz of Ukraine', estimations and calculation of the team of NJSC 'Naftogaz of Ukraine', responsible for Stockholm Arbitrage*

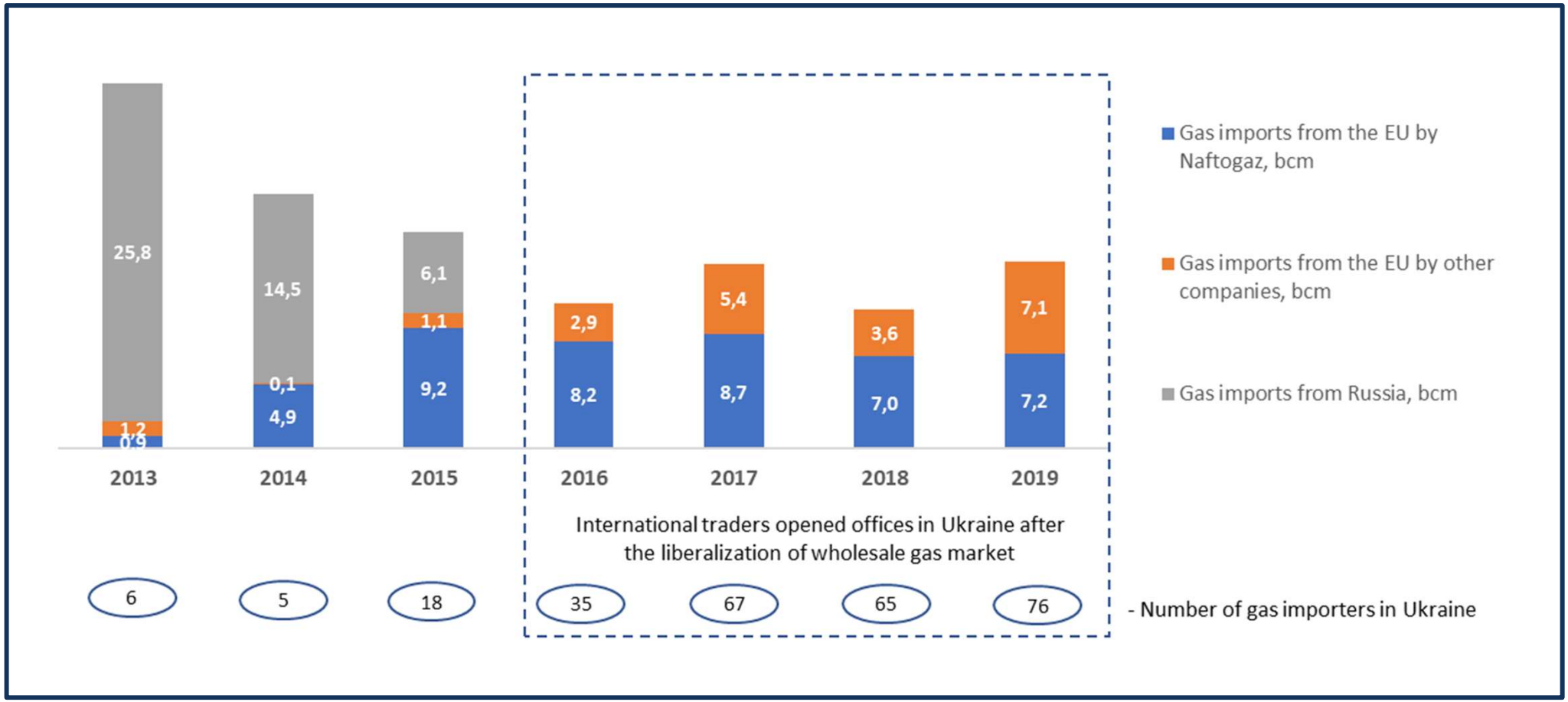
Unrecoverable Losses from 2009 Gas Contracts: Looking from Other Angles (cont'd)

Due to incorrect substantiation of a tariff revision request in 2009 Naftogaz could have won up to USD 12.3 bln more in 2014-2018 Transit arbitration against Gazprom:



Sources:
- Key results of Arbitrage on gas supply contract
https://www.naftogaz.com/www/3/nakweb.nsf/0/A6094D6DF82CF76BC225834B00523754?OpenDocument&Expand=2&
- Internal data of NJSC 'Naftogaz of Ukraine', estimations and calculation of the team of NJSC 'Naftogaz of Ukraine', responsible for Stockholm Arbitrage

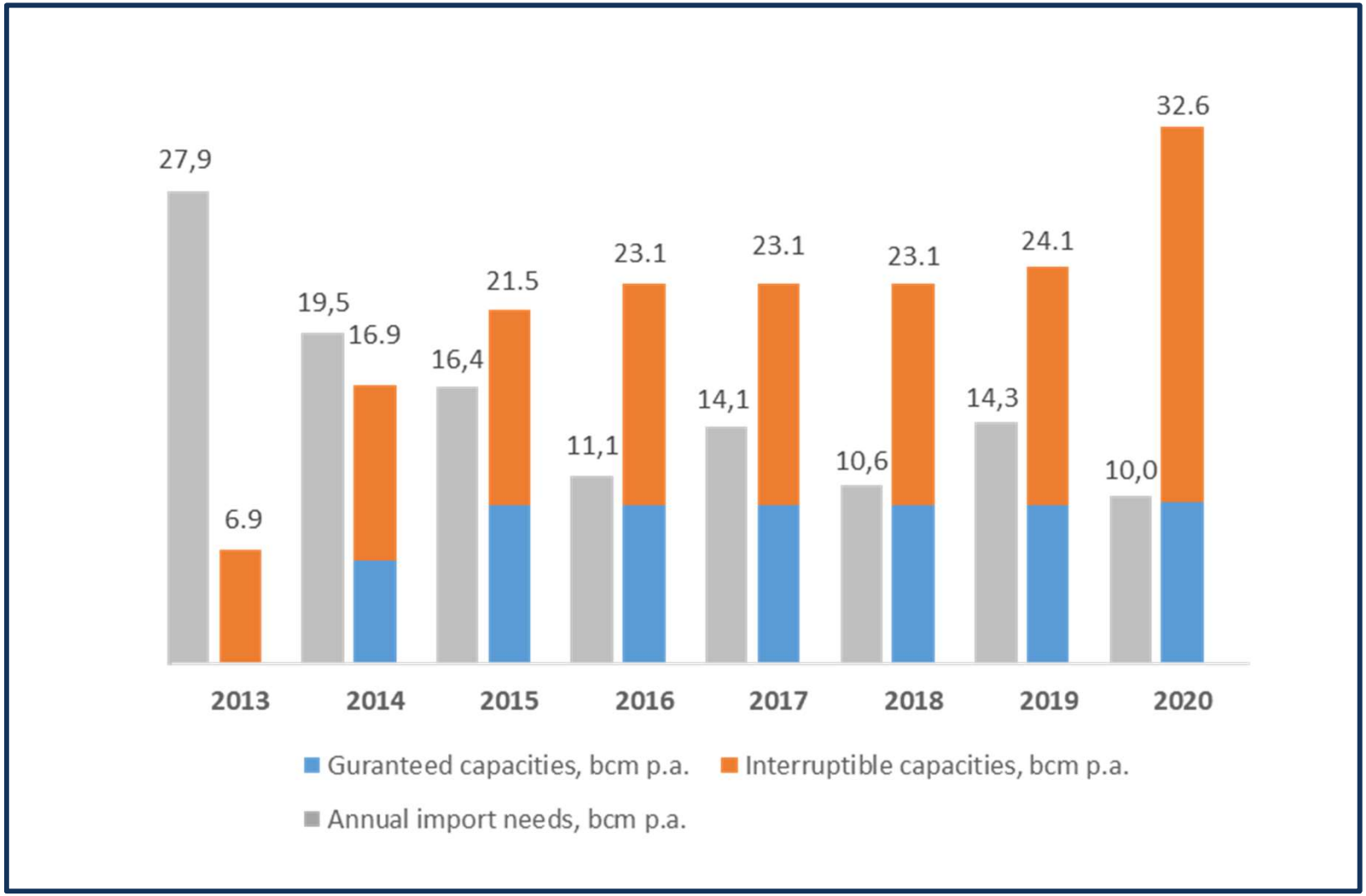
Structure of Gas Imports to Ukraine in 2013-2019



Sources:

- *Volumes of consumption and import of natural gas in Ukraine from 1991, website of Naftogaz https://www.naftogaz.com/www/3/nakweb.nsf/0/8B3289E9F4B2CF50C2257F7F0054EA23?OpenDocument*
- *LLC «Operator of Gas Transmission System of Ukraine», Internal data of NJSC 'Naftogaz of Ukraine', estimations and calculation of the team of NJSC 'Naftogaz of Ukraine', responsible for Stockholm Arbitrage*

Comparison of Ukraine's Gas Import Needs with Import Capacities from the EU



Sources:

- *Volumes of consumption and import of natural gas in Ukraine from 1991, website of Naftogaz*
- *https://www.naftogaz.com/www/3/nakweb.nsf/0/8B3289E9F4B2CF50C2257F7F0054EA23?OpenDocument*
- *LLC «Operator of Gas Transmission System of Ukraine», Internal data of NJSC 'Naftogaz of Ukraine', estimations and calculation of the team of NJSC 'Naftogaz of Ukraine', responsible for Stockholm Arbitrage*

Gap between Regulated Residential and Market Gas Prices

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Wholesale gas price in UAH/'000m3:																		
for households	102	102	93	93	150	237	226	327	352	393	345	341	474	1 763	4 216	4 941	5 293	5 558
for industrial consumers	276	276	313	347	488	720	970	1 682	2 029	2 716	3 509	3 487	4 241	6 368	6 059	6 812	7 969	6 179
Gap between residential and market gas prices (market price = price for industrial consumers)	**(63%)**	**(63%)**	**(70%)**	**(73%)**	**(69%)**	**(67%)**	**(77%)**	**(81%)**	**(83%)**	**(86%)**	**(90%)**	**(90%)**	**(89%)**	**(72%)**	**(30%)**	**(27%)**	**(34%)**	**(10%)**
Average price of imported gas:																		
price in USD/'000m3	50	59	51	50	95	130	180	233	257	309	425	397	294	277	214	242	312	197
average UAH/USD rate	5,3	5,3	5,3	5,1	5,1	5,1	5,3	7,8	7,9	8,0	8,0	8,0	11,9	21,8	25,6	26,6	27,2	25,8
price in UAH/'000m3	266	315	271	256	480	657	948	1 815	2 039	2 462	3 396	3 173	3 491	6 053	5 457	6 442	8 499	5 095
Gap between residential and market gas prices (market price = import price + 5% margin)	**(63%)**	**(69%)**	**(67%)**	**(65%)**	**(70%)**	**(66%)**	**(77%)**	**(83%)**	**(84%)**	**(85%)**	**(90%)**	**(90%)**	**(87%)**	**(72%)**	**(26%)**	**(27%)**	**(41%)**	**4%**

Sources:

- *Dynamics of gas price for households over 2015-2019, https://www.naftogaz.com/files/Information/Dynamika-cina-2015-2019-Naselennya.pdf*
- *Dynamics of gas price for industrial consumers, https://www.naftogaz.com/files/Information/Dynamika-cina-2015-2019-Promyslovist.pdf*

https://www.naftogaz.com/www/3/nakweb.nsf/0/4D50A380B0969658C2257F7F0056E388?OpenDocument&Expand=5&

- *Average UAH/USD exchange rate by NBU*
- *Internal data of NJSC 'Naftogaz of Ukraine', estimations and calculation of the team of NJSC 'Naftogaz of Ukraine', responsible for Stockholm Arbitrage*

Decrease in State Budget's Expenditures on Subsidies Resulting from the Gas Pricing Reform

	2014	2015	2016	2017	2018	2019
"Explicit" or target subsidies						
Budget expenditures to cover subsidies for utility services, UAH bln	6,2	18,0	44,1	69,7	70,0	46,6
Budget expenditures to cover the gap in residential heating tariffs, UAH bln	12,4	4,7	0,0	1,8	1,0	0,0
Total "Explicit" or target subsidies, UAH bln	**18,6**	**22,7**	**44,1**	**71,5**	**71,0**	**46,6**
as % of State Budget revenues	*5,2%*	*4,2%*	*7,2%*	*9,0%*	*7,7%*	*4,7%*
"Hidden" subsidies for gas						
Market price for gas, UAH/'000m3	3 667	6 355	5 729	6 766	8 915	5 349
Wholesale gas price for households, UAH/'000m3	474	1 763	4 216	4 942	5 293	5 516
Wholesale gas price for Heat-generating companies (residential segment), UAH/'000m3	756	1 256	3 282	4 942	5 393	5 534
Gas consumption by residential segment:	22	17	18	16	15	13
Households, bcm	15,1	11,3	11,9	11,3	10,6	8,0
Heat-generating companies (residential segment), bcm	7,1	5,9	5,7	4,6	4,8	4,6
Total "hidden" subsidies, UAH bln	**68,6**	**81,7**	**32,0**	**28,9**	**55,5**	**-2,2**
as % of State Budget revenues	*19,2%*	*19,2%*	*19,2%*	*19,2%*	*6,0%*	*n/a*
Total "explicit" and "hidden" subsidies, UAH bln	**87,2**	**104,4**	**76,1**	**100,5**	**126,4**	**44,5**
as % of State Budget revenues	*24,4%*	*19,5%*	*12,3%*	*12,7%*	*13,6%*	*4,7%*

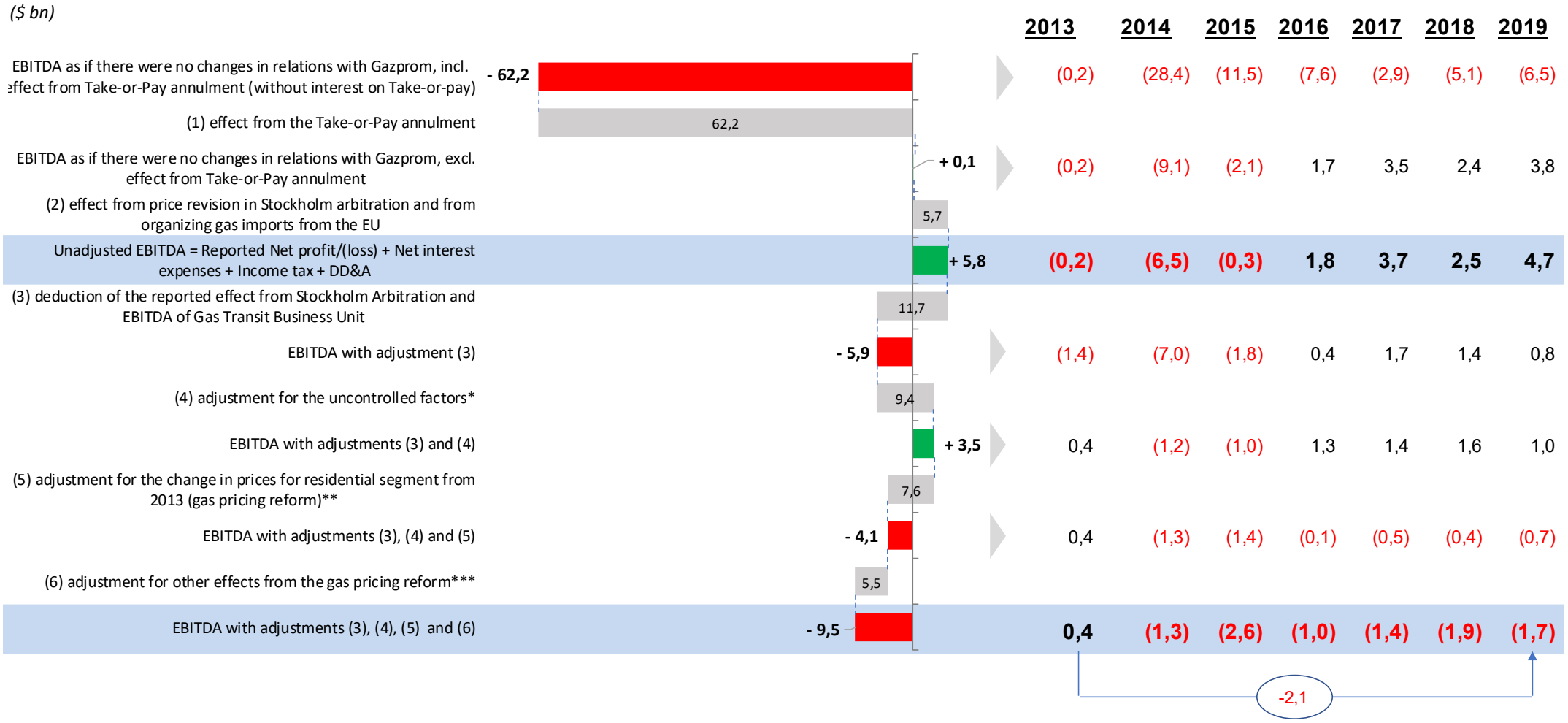
Sources:

- *Dynamics of gas price for households over 2015-2019, https://www.naftogaz.com/files/Information/Dynamika-cina-2015-2019-Naselennya.pdf*
- *Dynamics of gas price for industrial consumers, https://www.naftogaz.com/files/Information/Dynamika-cina-2015-2019-TKE.pdf*

https://www.naftogaz.com/www/3/nakweb.nsf/0/4D50A380B0969658C2257F7F0056E388?OpenDocument&Expand=5&

- *State Budget of Ukraine for 2014-2019 based on State Treasury Service of Ukraine's data*
- *Ministry of Social Policy's data*
- *Internal data of NJSC 'Naftogaz of Ukraine', estimations and calculation of the team of NJSC 'Naftogaz of Ukraine', responsible for Stockholm Arbitrage*

Waterfall of combined EBITDA of Naftogaz Group for 2013-2019



* - losses related to assets in occupied territories, FX gains and losses, impairment of PPE, provisions for legal and other proceedings, Ukrnafta's financial results, change in purchase (market) price for gas

** - effect from the price reform on revenues and royalty payments

*** - decrease in gas consumption volumes due to price reform, increase in gas production costs, NRV adjustment

Sources for the figures 1 and 2: Infographics / What is the benefit for Ukraine from change in relationship with 'Gazprom'?, Novoe vremya
Calculation methodology and sources for the figures 3-6 are stated in a separate document, published in the section "Data Library"