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Gas Crisis in January 2009 – Review and Outlook

27 January 2009

SPP, a.s., Mlynské nivy 44/a, Bratislava

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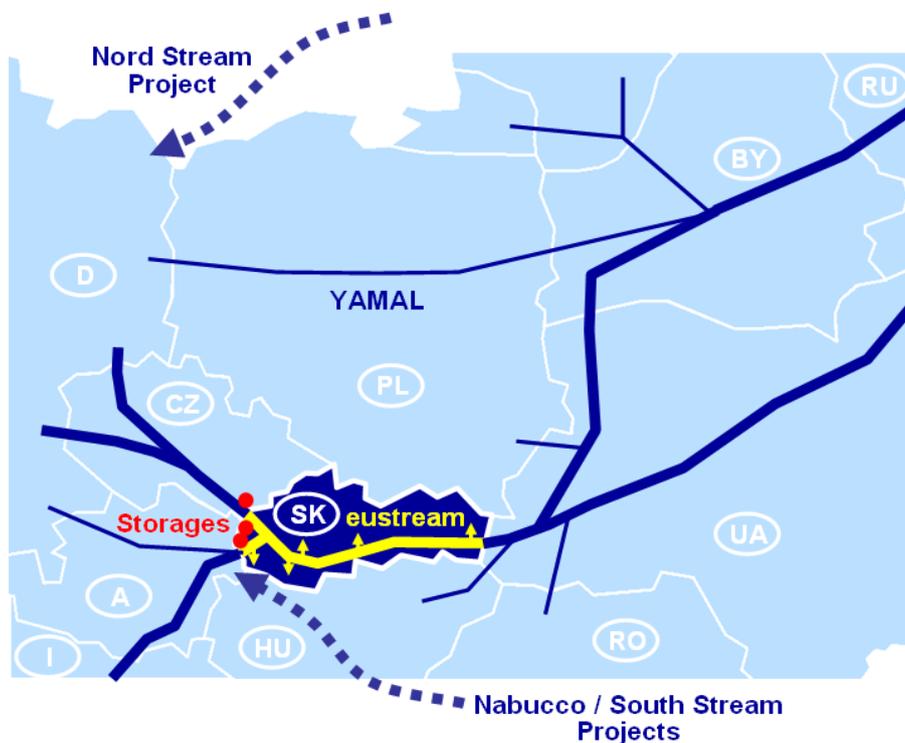


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Important facts on gas industry

- Within the European Union, Slovakia is the **second most densely covered country in terms of gas distribution** after the Netherlands, and it is one of the biggest transmitters of Russian natural gas.
- For several decades Russian gas has represented a completely dependable and optimally priced source of this commodity.
- The Slovak gas pipelines system provides a transmission capacity of **95 billion cubic metres a year**, which knows no parallel in Europe.

Integration of Slovakia in Europe's gas supply



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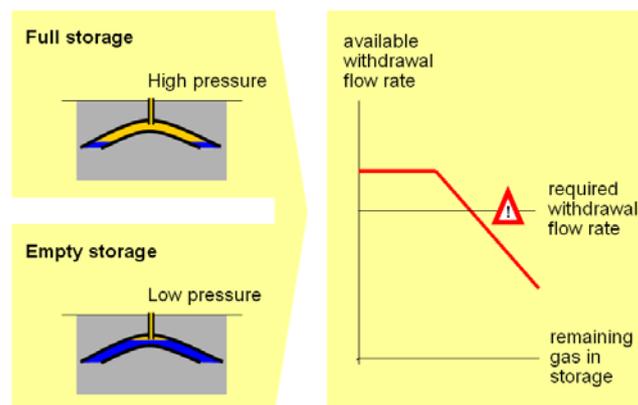
Preparation of SPP for potential crisis in gas deliveries

Although in the past certain fluctuations were registered in supplies, SPP was always able to cover them by particularly strong portfolio of underground storage facilities. Preparation of SPP for this year winter period was fully in line with the Ministry of Economy decree No. 459/2008 coll. of laws (Article 6) as well as with the EU directive 2004/67/EC concerning measures to safeguard security of natural gas supply. Sufficient volume of stored gas and high flexibilities of storages allows SPP group to cover legal requirements and to ensure safe supply to Slovak customers.

On December 19, 2008 a meeting of SPP representatives with the Ministry of Economy was held to ensure that Slovakia is well prepared for possible difficulties in gas deliveries. SPP met in full the obligation to secure the gas supplies even in the case of a 30% drop in supplies (as it was during the similar crisis in January 2006), which is laid upon it by the Energy Act. It needs to be added, that up to 6 January 2009, the drop in gas deliveries which SPP has faced in 2006 was historically the highest non-delivery from Russia without prior agreement, during which the deliveries have been decreased by 20-30% for 3 days.

Stocks in underground storage facilities in Slovakia are operated by two independent companies – Nafta Gbely and Pozagas. Storage facilities of Nafta Gbely have an operating capacity of two billion cubic metres of gas, and about 600 million cubic metres can fit into the storage facility of the company Pozagas. During standard operating mode the gas storage facilities satisfy two functions: those that are used by SPP, serve primarily for balancing out seasonal fluctuations in consumption (for example, in winter, when regular daily supplies from Russia are not enough to cover current consumption), and stocks contracted by the company SPP – distribúcia, a.s. serve to balance out daily differences between gas supplied to the system and that taken off from the system. For this year, SPP has contracted stock of gas comprising a volume of approximately 1.7 billion m³, which is on the level of one third of average annual consumption, and which is concurrently more than the average of EU countries.

Gas withdrawal from storages



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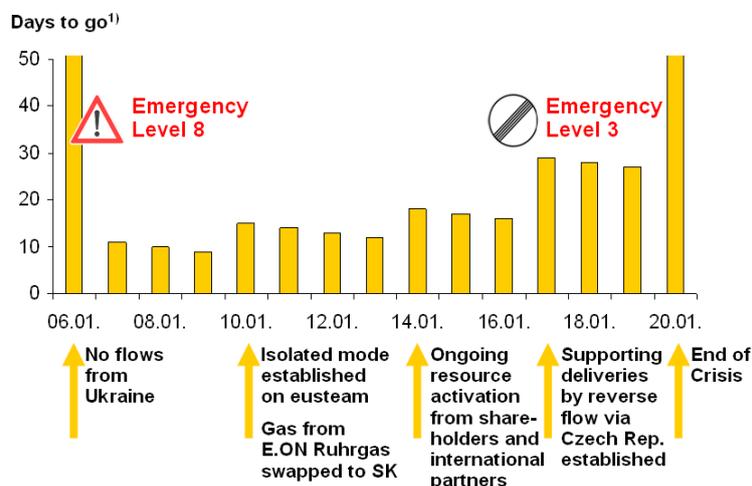
Measures taken by SPP to solve the crisis

Tension surrounding contractual relations between Russia and Ukraine indicated potential problems with gas supplies through the Ukrainian territory to Europe already at the beginning of the New Year, but the actual course, duration and impacts of the recently ended crisis surprised the whole gas community. SPP, a.s. was prepared for the winter season, gas storage facilities were full at the beginning of winter. Although the crisis scenarios included in the European energy strategies defined necessary measures in the event of limited gas supplies, nobody in Europe anticipated that supplies of Russian gas could cease altogether.

On Tuesday, 6 January 2009, gas supplies fell to one third of the agreed volume. SPP reacted immediately - SPP – distribúcia, a.s., in line with the law, was forced to declare a state of emergency in the gas industry, but still without regulation. The Crisis Staff convened immediately, composed of experts from SPP, SPP – distribúcia, Eustream, and the Ministry of Economy SR, in order to evaluate the gravity of the present situation and to propose necessary steps to cover the period of reduced supplies. SPP managed without problems to compensate for the limitation of supplies by extracting from underground storage facilities.

On Wednesday, 7 January 2009, a situation arose that nobody would have expected – for the first time in almost 40 years of the existence of the transit gas pipeline system, gas supplies from Russian through the territory of Ukraine ceased completely. This state of affairs hit several countries in Europe, but considering the structure of supplies and the high level of gas distribution coverage, the worst hit were Bulgaria, Serbia and Slovakia. SPP immediately evaluated the situation and possible development scenarios for which it was necessary to prepare, because nobody could know how long the crisis was going to last.

Management during the crisis



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A sensitive point in the crisis was not the capacity of the storage facilities or the volume of stocks of SPP (that was, and is, sufficient), but instead the technical possibilities – maximum possible daily recovery output. Despite the strong efforts, after supplies of gas were totally shut off, it was no longer possible to cover normal daily consumption from storage facilities due to the necessity to preserve required pressure conditions in gas transit system and due to technical limit of daily extraction. Therefore, to ensure supplies for households, hospitals and other essential services for the population it was crucial to adopt restrictive measures.

Priorities of SPP during the crisis

Once supplies of gas from Russia ceased completely, **the priority of SPP was to secure supplies for households, heating, hospitals and essential services for the population in the whole territory of Slovakia.** For this reason, in the early hours of 7th January 2009, SPP – distribúcia declared **restricted consumption level 8**, which committed industrial customers with a consumption in excess of 60,000 m³ a year to reduce their gas consumption to the level of the safety minimum.

Solutions to cover the crisis

Customers and the public were asking, naturally, about what Slovakia would do if natural gas supplies were not restored soon. The answer to this question was an equation with many variables, because it depended on the recovery rate from storage facilities, pressure conditions, additional supplies, which were being intensively worked on. SPP staff was re-appraising the situation continually, and by its responsibility to customers, the Slovak population, they had to count with the worst possible scenario that gas supplies would not be restored by the end of the winter period.

1. Slovakia's additional supplies from E.ON Ruhrgas and GDF Suez

As soon as supplies of gas from Russia through Ukraine were suspended, the employees of SPP started looking intensively for solutions and negotiating on alternative supplies of natural gas, with the help of which it would be possible to restore the standard mode of supplies also for industrial customers.

In the meantime, however, it was necessary to maintain the stability of the gas system – maintain optimum pressure conditions so that it was possible to supply all of Slovakia, including areas in the east of the country. Thanks to the extraordinary commitment of both the management and technical workers, this was managed throughout the whole crisis. Already from 9th January 2009 SPP had agreed on additional supplies of natural gas from the stocks of the shareholders **E.ON Ruhrgas and GDF Suez, which combined with the storage capacities covered the daily consumption in restricted consumption mode.**



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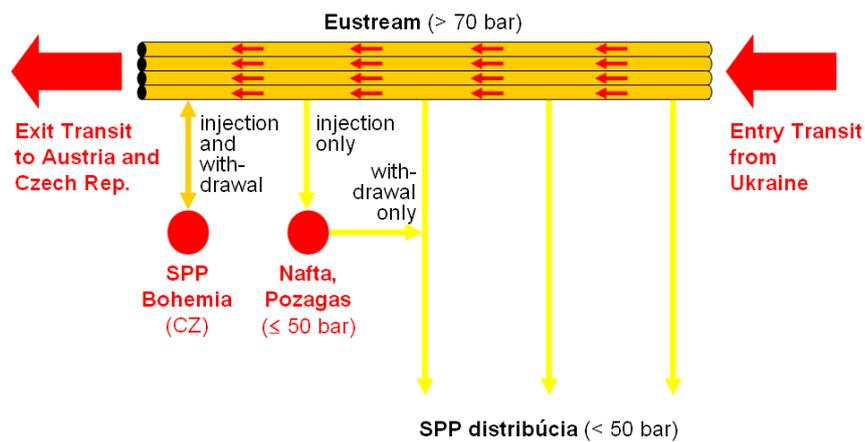
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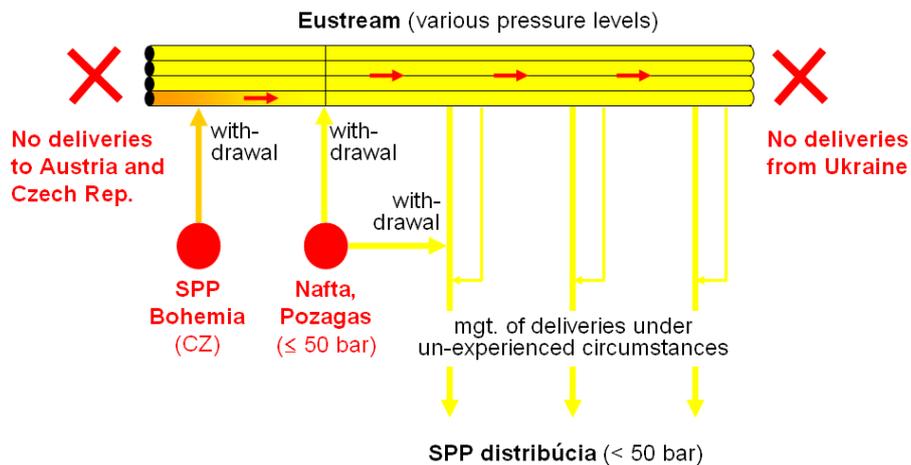


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Slovakia's gas supply – usual mode



Slovakia's gas supply – isolated mode (7.1 – 18.1.



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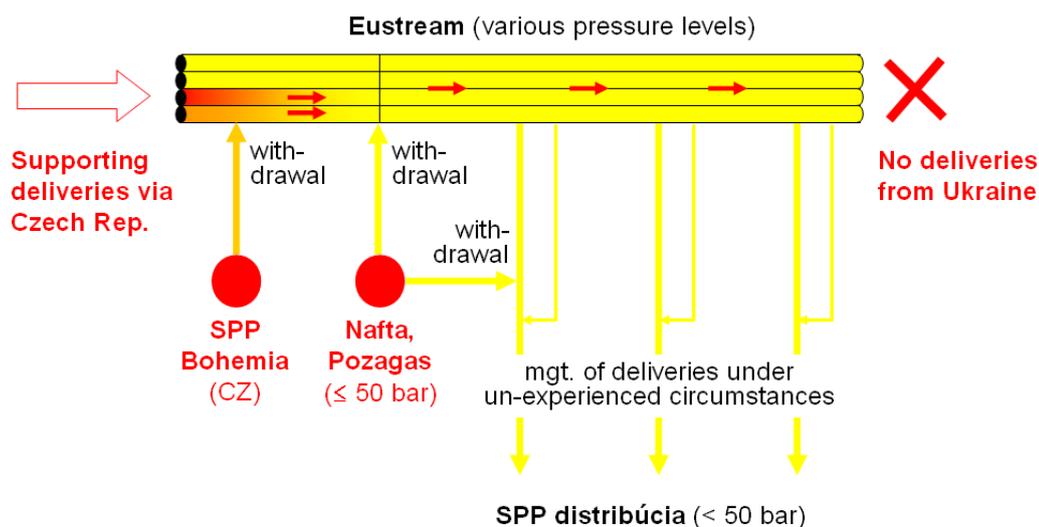


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2. Reverse flow in operation in exceptionally fast time

In an exceptionally quick time, SPP managed to find a technical solution that made it possible to switch to reverse flow of the transit system, and also the concluding of contracts for gas supplies, in the direction of west to east. Thanks to the enormous efforts of the shareholders of SPP – E.ON Ruhrgas and GDF Suez, and the assistance and solidarity of RWE Transgas, we managed to gain a total of 15.5 million m³ of gas for Slovakia, of which E.ON Ruhrgas provided 6.5 million m³ from its own sources, GDF Suez provided 5.25 million m³ and RWE Transgas gave 3.75 million m³. Thanks to this, despite the non-restoration of gas supplies from Russia, it was possible on **19 January 2009 to lift the gas consumption restriction** for industrial customers and adjust the consumption level from level 8 to basic level 3, meaning no restrictions for all customers of SPP.

Slovakia's gas supply – reverse flow



3. Additional supplies from underground storage facilities of the companies GDF Suez, VNG and Eongas/OMV

Furthermore, SPP arranged natural gas also from underground storage facilities of the companies GDF Suez, VNG and Eongas/OMV in sufficient volume to ensure gas reserves for covering the daily requirement of natural gas in winter period should the situation not be resolved in a short space of time.



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Preparation of SPP for the rest of winter

Following the agreement between Russia and Ukraine and the subsequent restoration of gas supplies from Russia on 20 January 2009 workers of the company Eustream and the whole SPP group managed to cope with restoring the transmission of gas from east to west in the space of just 7 hours, which was important not just for Slovakia, but also for customers in Western Europe.

Today we can say that the supplying of gas to all customers is transpiring in standard mode and without restrictions. After purchasing sufficient stocks of gas by SPP the current gas reserves stored in storage facilities equals to the level of that before the crisis. Despite this tough experience, SPP is fully prepared for the winter season and able to supply Slovakia fluently for the rest of the winter also in the event of low temperatures, for example, in the month of March.

Factors behind successful crisis management

Thirteen days in January tested the responsibility, reliability and flexibility of SPP in searching for quick and safe solutions in an extraordinary situation. SPP demonstrated its ability to secure gas for its customers also during a time when supplies were completely halted. Coping with the crisis situation was also proof of the solidarity of the gas community, political efforts and also the high degree of responsibility shown by our customers. The experience of all involved parties from this recent crisis will greatly influence the future of the whole European gas sector and will definitely reflect in further initiatives, the aim of which will be to limit the onset of similar situation in future.



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Supplement – A brief chronology of crisis

22.12.2008 – Gazprom calls on Ukraine to settle the debt for its gas supplies.

01.01.2009 – Ukraine stated that it had reduced the volume of Russian gas transmitted through its territory by 21 million m³ in 24 hours. In Gazprom they referred to such a step as theft. A day later Russia accused Ukraine of taking off gas that was intended for other European customers.

03.01.2009 – Some European countries (Romania, Hungary, Bulgaria) registered a drop in natural gas supplies.

06.01.2009 – Gas supplies from Russia through Ukraine to the Balkans were suspended in the early hours of the morning. No Russian gas flowed to Bulgaria, Macedonia, Greece and Turkey and Romania received 75% less gas.

06.01.2009 – A state of crisis occurs in supplies of natural gas to Slovakia. Supplies had dropped by 70% by 3 a.m. The company SPP - distribúcia, a.s. declared a state of emergency in the gas industry at 2 p.m.

07.01.2009 – Supplies of natural gas from Russia were completely suspended for the first time. The company SPP – distribúcia, a.s. declared the restricted consumption level 8 for industrial customers. SPP started to supply Slovakia from underground storage facilities and immediately took technical steps to stabilise the gas system.

07.01.2009 – Concentrated diplomatic and political efforts of the Slovak government, the European Commission put on pressure for the restoration of gas supplies and a solution to the situation. An expert group of observers was put together, which was to monitor transit through Ukraine.

08.01.2009 – Chairman of the Board of Directors of Gazprom, Alexej Miller, informed SPP about the situation concerning gas supplies and requested the Slovak gas company to nominate its experts to the monitoring group of the European Commission. SPP immediately confirmed the nomination of two experts, who leave for the dispatch headquarters in Kiev to fulfil their role.

09.01.2009 – SPP arranged additional supplies from the shareholders E.ON Ruhrgas and GDF Suez.

10.01.2009 – SPP assumes the task of last instance supplier for alternative suppliers of natural gas that could not supply their customers in Slovakia with gas.

14.01.2009 – Following political talks of the Slovak Prime Minister in Russia, the option of a swap operation is formulated, which would secure additional supplies for Slovakia. However, this option was not confirmed in the end.

17.01.2009 – SPP confirms that from 18.01.2009 it had arranged extremely important additional supplies from sources of its shareholders E.ON Ruhrgas and GDF Suez, and the company RWE Transgas, in order to make it possible to start reverse flow and lift the restricted consumption order on industrial customers starting Monday 19.01.2009. At the same time, SPP arranges additional volumes of natural gas in underground storage facilities for the sake of secure supplies in the later weeks of winter.



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18.01.2009 – An agreement between Russia and Ukraine increases the chances of supplies being restored. Employees of the company Eustream start the operation of reverse flow of transit. Natural gas flows to the territory of Slovakia from the west to the east for the first time.

19.01.2009 - At midnight from 18.01.2009 to 19.01.2009 SPP – distribúcia, a.s. lifts the restriction for industry.

20.01.2009 – After 12.00 Russian natural gas arrives in Veľké Kapušany, and in the evening hours transit is renewed for consumers in the Czech Republic, Austria and other European countries, and the supply of natural gas in Slovakia returns to normal. No technical problems were experienced upon the renewal of supplies.

23.01.2009 – SPP – distribúcia, a.s. recalls the state of emergency in gas industry for the whole territory of the Slovak Republic as of 2 p.m.



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