Nord Stream 2: Market Perspectives for the Long-Term Financing of the Project

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Nord Stream 2: a commercial initiative to reinforce the European gas supply

> EU domestic gas production has fallen in recent years and is expected to fall further within the next 20 years (-50%, about 70bcm less) while traditional suppliers from Norway (-25bcm) and Northern Africa (-30bcm) will not be able to supply Europe at today’s level anymore

> At the same time, EU gas demand remains steady so additional gas imports and capacity are required to meet European demand and safeguard supply security

> Nord Stream 2 connects Europe to the largest gas fields in the world, supplementing existing gas transportation with up to 55 bcm

> Nord Stream 2 will bring considerable benefits by increasing security of supply, a more competitive EU gas market, supporting sustainability goals

> Nord Stream 2 is a privately funded project backed by major European companies with an investment of 8bn Euros
Economic impact already tangible: 198 companies from 17 countries active on Nord Stream 2

> Material and service contracts
  - Binding order for ca. 2,500 km of large-diameter pipes placed March 2016
  - Delivery of the first pipes to concrete coating plant end of September 2016 – 25% of first line by year-end 2016 at the stock yards
  - Concrete weight coating and logistic contract signed early September 2016
  - Pipe lay contract awarded in February 2017

> Permits
  - Nord Stream 2 has submitted or will submit environmental impact assessments and permit applications according to national legal requirements and timelines in Germany, Denmark, Sweden, Finland and Russia in 2016/2017; permits to be received by Q2 2018
  - Submission of a transboundary environmental impact assessment (Espoo Report) acc. to requirements of Espoo Convention in April 2017 – international consultations until June 2017
A European natural gas supply gap is emerging due to decreased production due to decreased production.

**EU gas demand**
mostly stable

- **481 bcm**
  - **133 bcm** - Russia
  - **35 bcm** - LNG
  - **41 bcm** - Northern Africa
  - **119 bcm** - Norway
  - **141 bcm** - EU

- **472 bcm**
  - **288 bcm**
  - **16 bcm** - 8 bcm
  - **94 bcm**
  - **72 bcm**

**~120 bcm import gap**

**Decreased domestic production and lowered output from exporters**

**2015**

**2035**

**Statistical difference of ~12 bcm in 2015**

**New Supplies Southern Corridor**

* EU Energy, Transport and GHG Emissions – Trends to 2050
Nord Stream 2 increases security of supply

- Nord Stream 2 provides the most direct access to some of the world's biggest gas reserves
- Provides a total capacity of 55 bcm gas, enough to power 26 million households
- Strategic location to supply Europe – not at risk with rising global gas competition
- Offers an additional transport system to Europe, lowering risk and enhancing supply security

Source: BGR 2016
Nord Stream 2 is a competitive transport option

- Competitive additional route option for delivering gas to hubs in North-Western Europe and to the hub in Baumgarten
- Transportation tariff attractive for shipper
- Gazprom also receives future dividends, further improving economic benefit

Tariff rates for 1000 m³ on 100 km:

<table>
<thead>
<tr>
<th>Route</th>
<th>Tariff Rate (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nord Stream 1</td>
<td>&lt; 2</td>
</tr>
<tr>
<td>Nord Stream 2</td>
<td>&lt; 2</td>
</tr>
<tr>
<td>Ukraine current</td>
<td>~2.26</td>
</tr>
<tr>
<td>Ukraine new regime</td>
<td>~4.30</td>
</tr>
</tbody>
</table>

Cost of Transport from the Russian border
(Euro per 1,000 m³)

- German-Netherlands border:
  - Nord Stream: 33.7 EUR
  - Ukraine: 55.1 EUR

- Baumgarten:
  - Nord Stream: 41.8 EUR
  - Ukraine: 40.7 EUR

Calculations made based on open sources, incl. current tariffs of TSO's (transmission system operators) and revenue assumptions for the potential route via the Black Sea.

Nord Stream 2 will fully comply with the applicable, comprehensive legal framework

**National Legislation**
- Environmental legislation, e.g. national implementation of the EIA Directive
- Numerous other permitting related national provisions applicable for construction and operation

**Supranational**
- European Directives

**International law**
- UNCLOS (Art. 79 Freedom to lay pipelines if compliant with envi regulations)
- Espoo Convention
- Helsinki Convention
- (Other) treaties
Leading energy companies are strongly committed to implementing the project.
What Partners Say About Nord Stream 2

“We should not politicise this economic project, which will increase security of supply. Europe needs to diversify import routes for Russian pipeline gas. Every new pipeline increases liquidity and competition in Europe’s gas market”

(Quote in Handelsblatt.com article - 06/04/2017)
Rainer Seele, CEO, OMV

“We are very close to the end. So what I expect is in coming weeks we will be able to finalise”

(CERAWeek conference - 09/03/2017)
Isabelle Kocher, CEO, ENGIE

“I have always said that I believe this project is strategically relevant for Europe. It is strategically important for us too”

(Interview with Energy Post - 17/02/2017)
Klaus Schäfer, CEO, UNIPER

“I am pretty confident that we will find the solution to support the project not only morally but also financially”

(CERAWeek conference - 08/03/2017)
Mario Mehren, CEO, Wintershall
Financing

> Nord Stream 2 is planned to be funded with a combination of:
  - Long-term sponsor funding 30%
  - OECD ECA covered facility
  - EXIAR covered facility
  - International bank facilities 70%
  - Russian bank facilities

> Latest feedback from financial markets:
  - Long-term EUR liquidity available, both for International bank facilities as for the Russian bank facilities
  - Russian banks lend substantial amounts in EUR to (Russian) borrowers
  - VEB, Gazprom Bank, Sber Bank, VTB indicated strong interest in the transaction
Financing

- EUR 9.9 billion total budget
  - Contracts for over EUR 4 billion are committed to date
  - Line pipe contract, coating & logistics contract and pipe lay contract are the main basis for Export Credit Agencies’ support

- West-European and Russian ECAs have confirmed their interest to support the project
Financing

> Financing structure (indicative):

<table>
<thead>
<tr>
<th></th>
<th>OECD ECA Facility</th>
<th>EXIAR Facility</th>
<th>International Bank Facility</th>
<th>Russian Bank Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenor (years, door-to-door, expected)</td>
<td>16</td>
<td>16</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Base (swap) rate (% p.a.)</td>
<td></td>
<td>2% (80% hedged at 2% and 20% non-hedged )</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All-in Cost (including base (swap) rate)</td>
<td>5.1% p.a.</td>
<td>7.0% p.a.</td>
<td>6.1% p.a.</td>
<td>7.8% p.a.</td>
</tr>
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- Completion support and Debt Service support from sponsors
- Gas Transportation Agreement with Gazprom Export LLC on a ship-or-pay basis for 100% of the capacity; GTA ensures a minimum Debt Service Coverage Ratio (DSCR)

> Alternatives (not yet fully evaluated):
- Development banks
- UFK
- Bridge-to-Bond
ECAs are planned to be approached with an information package in May 2017.

Financial close targeted in second half of 2018.

Nord Stream 2 in consultation with the prospective ECA-group has selected the lenders’ independent environmental & social, technical, legal, market and insurance consultants.

The environmental & social, technical, market and insurance reports are now being prepared by the consultants and will be provided (in draft form) to the ECAs in May 2017 within the information package.
The project is well underway
Thank you for your attention!

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