

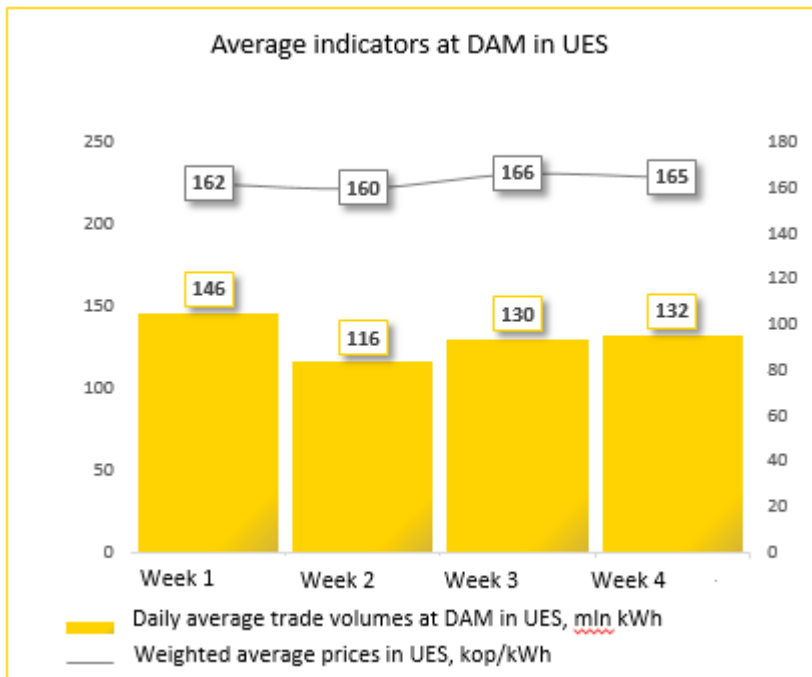
BRIEF ON KEY BUSINESS ISSUES

№12/2019 05.08.2019 Kyiv

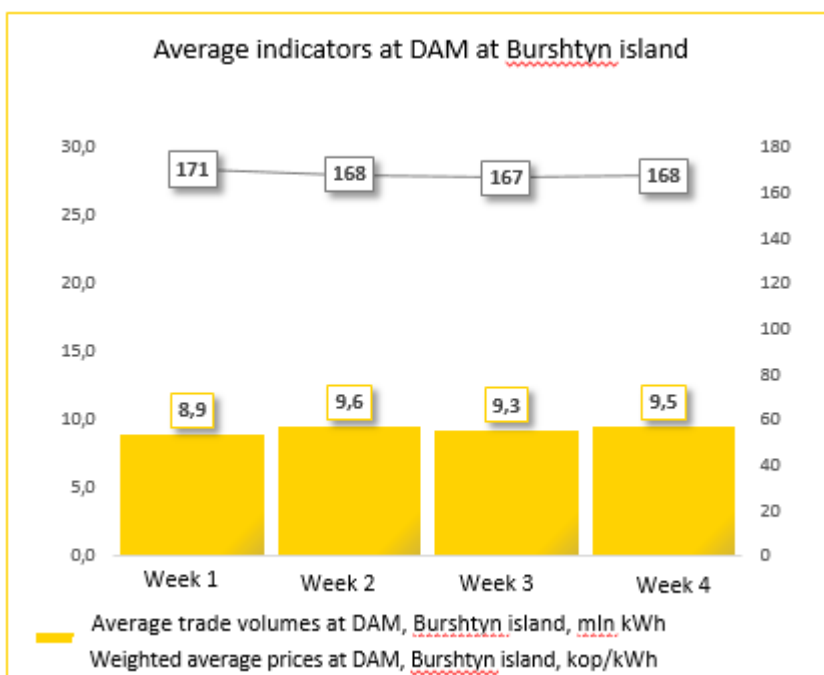
Weekly electricity market update (week 4)

There were no failures during the first month of the new electricity market functioning.

The average weighted market price at the DAM in the United Energy System (UES) was 165 kop/kWh during last week, which was 1 kop/kWh (-0.6%) lower than during the previous week. The average indicator by volume was 132 mln kWh per day.



Burshtyn Island at the DAM traded at an average of 9.5 mln kWh, the weighted average price increased by 1 kop/kWh (+0.6%) compared to the week's indicator of July, 15-21.



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Export/import operations: For the first time in 23 years, Ukraine is importing electricity from Europe. According to preliminary data, 274 mln kWh was imported in July 2019 (171 mln kWh from Slovakia and Hungary and 103 mln kWh from Belarus). Exports from Ukraine amounted to 488 mln kWh: 343 mln kWh via Burshtyn Island in the Hungarian direction, 97 mln kWh to Poland and 48 mln kWh to Moldova. DTEK also conducts export/import operations.

Bilateral agreements: The Ministry of Energy and Coal industry announced a competition for the new organizer of electronic auctions for electricity sales under bilateral agreements. So far, the sole organizer of auctions is the "Ukrainian Energy Exchange", which was chosen according to the Cabinet of Ministers' decision without competition in order to launch the market on time.

Discussions on the new market: Market participants and Ukraine's European partners continue discussing the major developments of competitive market functioning. A working meeting with Ruta Baltause and Jose-Manuel Hernandez, Support Group for Ukraine, European Commission was held on 23rd July at the American Chamber of Commerce. Participants of the meeting debated various aspects of the market functioning and agreed that there was no collapse or blackout and, in general, that market launch was a success.

Non-payments to RES producers: the crisis continues

On July 31st, the state-owned "Guaranteed buyer" made a third payment to RES producers. The total amount of payments in July reached UAH 1.5 bln – this covered about 50% of the cost of electricity produced in July. The payments were made with funds received from 2 state enterprises – "Market Operator" and NEC "Ukrenergo". For a full payment, it is necessary to settle the issue with tariffs of NEC "Ukrenergo".

The difference between the value of the feed-in-tariff and the market price was included in Ukrenergo's tariff for electricity transmission. The appeal of JSC Nikopol Ferroalloy Plant to the NEURC Resolutions #954 and #955 on setting transmission and dispatching tariffs for SE NEC "Ukrenergo" caused the suspension of Ukrenergo's tariffs by the District Administrative Court of Kyiv on June 27th, 2019 (this decision is being appealed). It deprived Ukrenergo of the opportunity to pay to the Guaranteed buyer, which is responsible for payments to RES-producers. On July 26th, 2019, the Guaranteed buyer issued a lawsuit to the Commercial Court of Kyiv demanding recovery of UAH 1.58 bln from Ukrenergo. Also, on July 29th, the Guaranteed buyer [appealed](#) to the President of Ukraine for help in resolving the situation.

On August 1st, the District Administrative Court changed measures on securing the Nikopol Ferroalloy Plant claim, and suspended tariffs only for five Ukrainian private companies including the applicant.

Non-payment to RES producers is in the focus of leading business associations in Ukraine; ACC, EBA, and EUEA came out with [requests](#) to different state authorities to help in resolving the issue.

EUEA Round Table: balancing capacities needed for RES development

On July 23rd, 2019, the European-Ukrainian Energy Agency (EUEA) held a Round Table "Investment attractiveness of balancing RES in Ukraine". Among the participants of the round table were representatives of RES producers, IFIs and state authorities.

During discussion, Olha Buslavets (Ministry of Energy and Coal Industry) stressed the urgent need for the development of new highly maneuvering generating capacities. This is critically important for ensuring the reliable operation of the energy system given the rapid increase of the share of renewable energy with a non-guaranteed schedule of electricity supply. To provide additional incentives to investors, the Ministry of Energy and Coal Industry elaborated the Procedure for conducting a competition for the construction of generating capacity and

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implementation of demand management measures, which was adopted on July 10th, 2019 by the Cabinet of Ministers.

DTEK launched Innovation Days tradition

DTEK launches Innovation Days initiative in the new Innovation DTEK office – a place where employees, open minded, creative people, game changers, partners, startups, visionaries and dreamers will work together. The first event of the series took place on July 24th, 2019.

The company aspires to develop a culture of open innovations within its diverse businesses as coal mining, power generation, renewables, electricity distribution, energy efficiency and customer solutions. DTEK is looking for innovative solutions to improve its business in the fields of 3D printing, VR, AR, MR, haptic feedback suits, artificial intelligence, blockchain, energy storage, robots, drones and exoskeletons. Previously, DTEK has launched an accelerator program and has now built a robust process for creating challenges for startup teams, as well as scouting, evaluating and implementing solutions from domestic and European ecosystem.

DTEK Advisory Council members visited DTEK solar, wind and thermal power plants

DTEK permanently raises and discusses top priority questions of Ukrainian energy sector with the prominent international experts. On July 30th, the following DTEK Advisory Council members joined DTEK CEO Maxim Timchenko for the visit to DTEK solar, wind and thermal power plants in south-east of Ukraine:

- Mr. Edward Chow, key energy expert on Ukraine in the U.S. Senior Associate (Non-resident), Energy and National Security Program, Center for Strategic and International Studies (CSIS);
- Mr. Johan Bastin, DTEK Supervisory Board representative/Advisory Council Coordinator. Mr. Bastin has held several senior management positions with the European Bank for Reconstruction and Development;
- Mr. Nick Butler, economist, Professor Kings College London, founding Chairman of the Kings Policy Institute. Author of Financial Times weekly blog on Energy and Power since 2012.

The Advisory Council is called upon to contribute to formulating the long-term corporate strategy of DTEK taking into account the leading global trends in energy and economy.

The visit and meetings has also joined Mr. Tim Ash, senior emerging markets sovereign strategist for Bluebay Asset Management Company.

Luhans'ka TPP switched to gas

On July 29th, Luhans'ka TPP switched to gas due to depleted coal stocks (4 k/mts). Gas is supplied by Naftogaz of Ukraine.

In April 2019, the Government of the Russian Federation restricted exports of some goods to Ukraine starting June 1st. According to this decree, export of coal is possible exclusively on the basis of permits of the Ministry of Economic Development of the Russian Federation. DTEK applied for permits for coal delivery to Luhans'ka TPP from Obukhovskaya mine for June and July, but they were not approved. Starting June 1st, there are no coal shipments to the power plant.

Shipments from the Russian Federation are the only possible route as there are no rail tracks to the power plant from government-controlled territories of Ukraine. The Luhans'ka TPP shutdown could cause an emergency situation, because it is the only energy-generating enterprise in the Luhans'k region. On July 26th 2019 Luhans'ka

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TPP entered into an agreement with NAK Naftogaz for the supply of natural gas within the framework of PSO for 3 days in July and for August 2019. As a result, all legal bases have been created to start gas consumption at Luhans'ka TPP from July 29th 2019. However, newly adopted electricity market price caps (164 kop/kWh) do not cover the expenses of gas and the Company's losses could reach UAH 86 mln/month. One of the possible solutions is to adopt a special CMU Decree fixing the gas price in frames of PSO via Naftogaz at the level of UAH 2 895.

Coal stocks at power plants

	05.08.2018	01.08.2019	05.08.2019	2019/2018, % increase	05.08.2019/ 01.08.2019, % increase	min level of stocks*	2019/min stocks, %	coal reserves for 1 month of work**	Work without supply, days
DTEK TPPs	927	802	790	-15%	-2%	1 167	68%	1 568	16
G+DG grade:	825	731	721	-13%	-1%	960	75%	1 382	16
<i>Zaporiz`ka</i>	88	112	105	19%	-7%	159	66%	212	15
<i>Ladyzhins`ka</i>	96	77	71	-25%	-7%	156	46%	194	11
<i>Burshtyns`ka</i>	231	184	182	-21%	-1%	210	86%	419	13
<i>Dobrotvirs`ka</i>	32	41	40	23%	-1%	117	34%	118	10
<i>Kurahivs`ka</i>	294	261	268	-9%	3%	200	134%	338	25
<i>Kryvoriz`ka</i>	20	0	0	-100%	-	9	0%	0	-
<i>Prydniprovs`ka</i>	65	57	55	-15%	-2%	109	51%	100	17
A+T grade:	102	70	68	-33%	-3%	207	33%	186	11
<i>Krivoriz`ka</i>	40	57	57	41%	0%	113	51%	92	19
<i>Prydniprovs`ka</i>	13	10	8	-38%	-21%	10	79%	0	-
<i>Luhans`ka</i>	49	3	3	-94%	0%	84	4%	94	1
Other Ukrainian TPPs	300	185	186	-38%	1%	456	41%	588	10
G+DG grade	144	15	14	-90%	-8%	313	4%	447	1
A+T grade	156	170	172	10%	1%	143	120%	141	38
All Ukrainian TPPs	1 228	987	976	-21%	-1%	1 623	60%	2 156	14
G+DG grade	970	747	735	-24%	-1%	1 272	58%	1 828	12
A+T grade	258	240	240	-7%	0%	350	69%	327	23

* - level of coal stocks for 01.09.2019 according to the Stockpile schedule by Ministry (dated 29.03.19)

** - on the basis of coal reserves for 1 month of work in the mode of the Stockpile schedule by Ministry (dated 29.03.19) on August 2019

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