THE BALTIC PIPE PROJECT

OPEN SEASON 2017

MODEL PAPER

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INVITATION TO THE OPEN SEASON PROCESS OF THE BALTIC PIPE PROJECT

Energinet.dk and GAZ-SYSTEM S.A. hereby invite all potential shippers to take part in our Open Season that will allow shippers to bid for capacity in the potential new gas pipeline from Norway to Denmark and Poland. The purpose of the process is to collect long-term investment signals for the Baltic Pipe Project before final investment decision is taken. The Open Season process will take place in a transparent and non-discriminatory way in accordance with current EU regulation.

The Baltic Pipe Project is a major gas infrastructure project that aims at creating a new supply corridor for gas in the European gas market; for the first time, it will enable shippers to flow gas directly from Norway to the markets in Denmark and Poland together with their neighbouring markets. Moreover, it will also enable shippers to flow gas bidirectional from Poland to the Danish and Swedish markets.

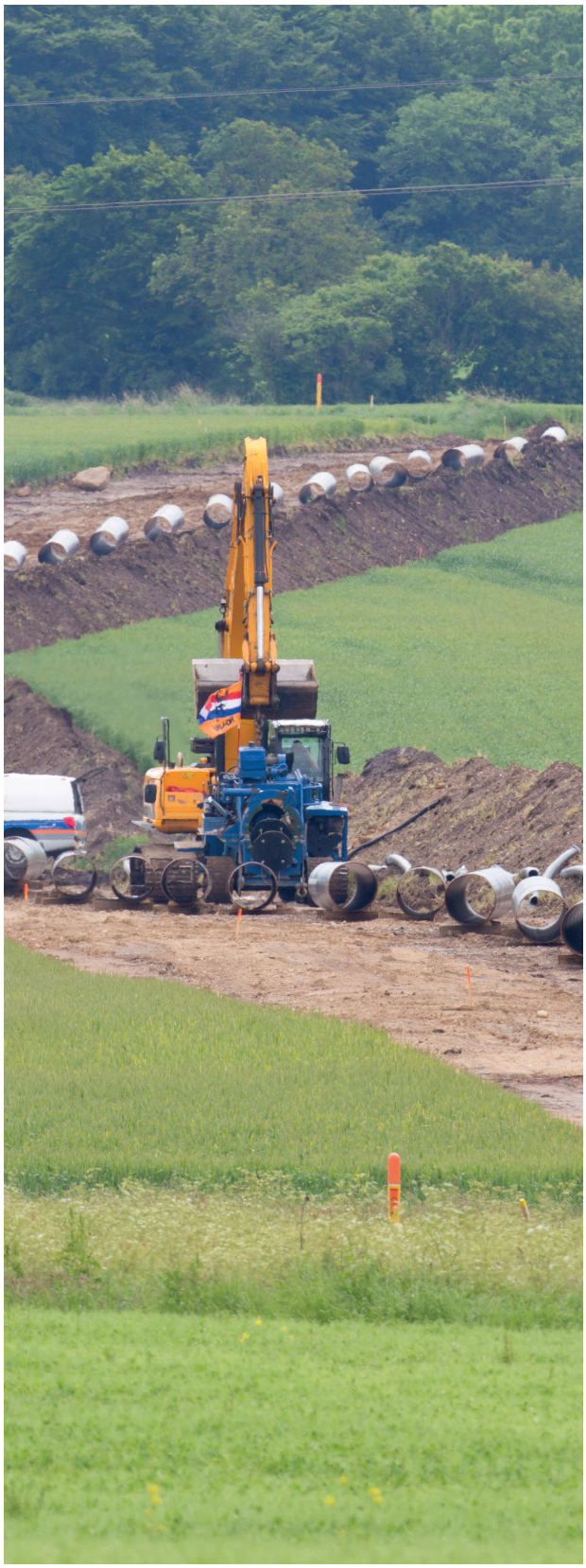
The project is designed to achieve the following goals:

- Integrating the Danish, Swedish and Polish gas markets by means of supply competition and bidirectional trading with the aim of ensuring increased price convergence.
- Strengthening regional security of supply by providing access to Norwegian gas for the Danish, Swedish and Polish gas markets and, additionally, for the markets in the wider Central and Eastern Europe.
- Further increase the load-factor of existing Danish infrastructure in order to reduce tariffs to the benefit of users.

The Open Season process is designed to enable shippers to provide relevant TSOs with positive investment signals that are required for realization of the Baltic Pipe Project. The process will run from December 2016, starting with a market consultation of the rules, until the second half of 2017 by signing of the capacity agreements, which will be subject to conditions precedent.

The realization of the Baltic Pipe Project will also be subject to the final conclusions of the feasibility study currently being conducted by Energinet.dk and GAZ-SYSTEM S.A. as well as approvals by relevant authorities. Further information will be provided when available.

The aim of this model paper is to introduce the Open Season in the Baltic Pipe Project context and to draw up a high-level picture of the way GAZ-SYSTEM S.A and Energinet.dk intend to conduct their Open Season 2017. Please note that additional changes may occur.



INTRODUCTION OF THE BALTIC PIPE PROJECT

Introduction and purpose

In 2016, the Polish gas transmission system operator (TSO), Gas Transmission Operator GAZ-SYSTEM S.A. ("GAZ-SYSTEM S.A.") and the Danish gas transmission system Operator (TSO), Energinet.dk ("Energinet.dk") investigated the possibility of establishing an interconnection between the two national markets through a bidirectional offshore pipeline and expansion of the national transmission systems to ensure full functionality of the new pipeline. In addition, offshore infrastructural connection between Denmark and Norway has also been investigated. Detailed pipeline routing, scope and location of key investments will be further described later.

The conclusions of this investigation will be presented in the feasibility study at the end of 2016. The aim of the feasibility study is to test the feasibility of the project, both - from a commercial and technical point of view, and provide guidance for the potential implementation of the project. In this regard, the study aims at identifying the socio-economic security of supply and market benefits as well as identifying the most cost-efficient technical solutions. The study is co-financed by the EU under the CEF Program.

As part of the feasibility study, a market test was conducted to assess a general interest of third parties in the Baltic Pipe Project (May 2016). The result of the market test was positive, in terms of indicating a non-binding market demand for the Baltic Pipe Project. Consequently, the next step is to invite existing and pro-spective shippers to participate in an Open Season in order to collect the market's long-term investment signals.

THE MAIN OBJECTIVE OF THE BALTIC PIPE PROJECT

The main objectives of the Baltic Pipe Project are to further strengthen supply diversification, market integration, price convergence and security of supply in primarily Poland and Denmark and secondarily in Sweden, Central and Eastern Europe (CEE) and the Baltic region:

- integrating the Danish, Swedish and Polish gas markets by means of supply competition and bidirectional trading secondly with a view to in-clude planned interconnections to the Central and Eastern Europe (via Poland-Czech Republic interconnection, Poland-Slovakia interconnec-tion, Poland-Ukraine interconnection) and the Baltic States (via Poland-Lithuania interconnection);
- strengthening regional security of supply through supply diversification (enabling new sources of gas supply);
- increasing the competitiveness on the regional gas markets and facilitating price convergence between the markets, possibility of new players entrance and potential increase in gas demand in the impacted regions;
- improvement in technical reliability of gas supply for customers by diversifying the imported gas supply directions connecting the Baltic Pipe to the LNG terminal in Świnoujście, which could in the future guarantee Scandinavian countries access to the global liquefied natural gas (LNG) market.

Energinet.dk and the Danish gas transmission system

Energinet.dk is the Danish TSO, transmission system operator, of the main electricity and gas transmission systems. Our main task is to maintain the overall short-term and long-term security of electricity and gas supply. Moreover, some of our tasks are to develop the main Danish electricity and gas transmission infrastructure together with creating objective and transparent conditions for competition on the energy markets and to monitor that competition works. The company is organized as an independent public enterprise owned solely by the Danish state as represented by the Danish Ministry of Energy, Utilities and Climate.

Energinet.dk has its own supervisory board.

The company was established pursuant to the Danish Act on Energinet.dk Denmark from December 2004. The legal framework off Energinet.dk is provided by the Act on Energinet.dk. It appears from this act, that all major investment decisions are to be approved by the Danish Ministry of Energy, Utilities and Climate.

Energinet.dk owns and operates the onshore natural gas transmission grid in Denmark together with the Lille Torup and Steenlille natural gas storage facilities. The gas storage activities are situated in a separate legal entity, Gas Storage Denmark A/S. It has been decided by the Danish government (the autumn of 2015) that Energinet.dk shall buy the offshore gas-pipelines owned by DONG Energy A/S.

GAZ-SYSTEM S.A. and the Polish gas transmission system

The business core of GAZ-SYSTEM S.A. is transportation of gas through a transmission network in the territory of Poland providing gas to distribution networks and to final customers connected to the transmission system.

On 13 October 2010, the President of the Energy Regulatory Office (hereinafter: "President of ERO") issued a decision, whereby GAZ-SYSTEM S.A. obtained the status as Transmission System Operator in the territory of Poland until 31 December 2030.

The company carries out transmission activity on the basis of the transmission network in the territory of the Republic of Poland which is owned thereby.

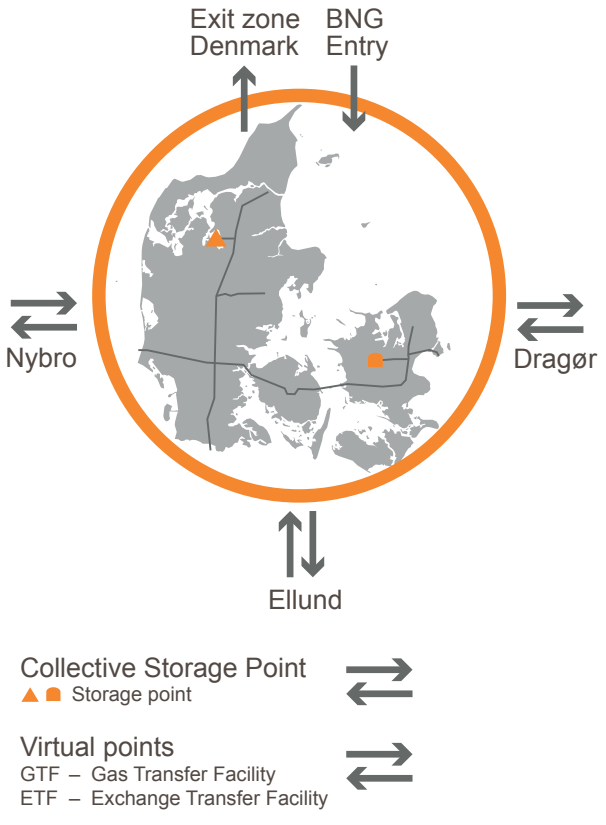
GAZ-SYSTEM S.A. is also an owner of Polskie LNG S.A., i.e. the operator of the LNG Terminal in Świnoujście, which has been in operation since mid-2016.

On 22 September 2014, GAZ-SYSTEM S.A. obtained a decision issued by the President of ERO granting a certificate of independence in the ownership unbundling model in relation to the gas network owned by GAZ-SYSTEM S.A.

The Danish market model, including description of the North Sea

The current Danish transmission system is commercially configured as an entry-exit system comprising of:

- Three entry points (Nybro, Ellund and Dragør) where the natural gas can enter Denmark.
- One entry point for upgraded biogas - BNG Entry point - where shippers can virtually inject bio natural gas into the transmission system.
- One exit zone where Danish consumers are supplied with natural gas by the gas suppliers via the distribution network.



The exit zone consists of six distribution areas, each with a distribution company. There are also three large power stations in the exit zone (Avedøre 2, H.C. Ørsted and Skærbæk power stations), which are directly connected to the transmission grid.

- Three transit exit points at Nybro, Elllund and Dragør where the natural gas can be exported out of Denmark.
- Two virtual trading points for natural gas: Gas Transfer Facility (GTF) and Exchange Transfer Facility (ETF) where shippers can trade in natural gas.
- One collective storage point covering the storage facilities at Stenlille and Lille Torup where storage customers can inject and withdraw gas as needed.

The Danish entry-exit model with (only) one exit zone requires aggregated data for each gas supplier at each allocation area level (via the consumer portfolios). The individual metering and consumer data below the supplier level is therefore not known to Energinet.dk. However, the distribution companies must provide such data, if relevant for Energinet.dk, for instance in relation to emergency interruptions.

Capacity (measured in gross calorific value per hour) is purchased via one or more capacity agreements (overlapping in time):

- Entry capacity is booked for each entry point (Nybro, Ellund or Dragør)
- Exit zone capacity is booked for the entire zone (Denmark) covering transmission to
  - all six allocation areas and all consumer portfolios, and
  - the three direct sites
- BNG entry capacity is booked at the BNG entry point
  - All seven allocation areas and all BNG portfolios
- Exit capacity is booked for each exit point (Nybro, Ellund or Dragør).

Shippers are responsible for transport, balancing and trading in the transmission system, whereas gas suppliers are responsible for consumer management in the distribution network. A gas supplier can have one or more shippers supplying one consumer portfolio. Likewise, the end-consumer at a direct site can have more than one shipper. The end-consumers supplied directly at the direct sites are their own gas suppliers, and a consumer can have more than one supplier, cf. the regional rules. Finally, a BNG seller is responsible for the delivery to a shipper of gas from a biogas upgrading plant connected to the Danish gas system.

Only direct consumers pay a fee directly to Energinet.dk for security of the supply.

Notwithstanding the Baltic Pipe Project, Energinet.dk has a vision of integrating the upstream pipelines in the North Sea

with the transmission system. Moreover, Energinet.dk and Swedegas are currently investigating the possibility of a common balancing zone for the two countries, Sweden and Denmark. If these projects are materialized, it will change the current market model.

For further information, please visit www.energinet.dk

The Polish gas transmission system

At the end of 2015, the gas transmission system in Poland consisted of high pressure gas pipelines with a total length of 10,996 km, 65 entry points, 968 exit points, 881 gas stations, 14 compressor stations and 58 system nodes. The transmission network consists of two cooperating systems covering the high and low calorific gas.

The gas network in Poland is connected to the European grid, but mainly along the east-west axis. There are six major physical entry points into the transmission network that are located in Drozdowicze (IP with Ukraine), Wysokoje (Belarus), Lwówek and Włocławek (on the Yamal-Europe pipeline) (PWP), Lasów (Germany) and Cieszyn (the Czech Republic). Since the summer of 2016, the transmission system in Poland could also be supplied via the LNG terminal in Świnoujście.

GAZ-SYSTEM S.A. completed an investment plan in 2015 that consisted of the construction of the LNG terminal in Świnoujście and more than 1,200 km of new gas pipelines. The majority of domestic pipelines were constructed in north-western Poland to enable efficient distribution of gas from Świnoujście through-out Poland. In addition, GAZ-SYSTEM S.A. launched a new cross-border intercon-nection with the Czech Republic in Cieszyn in September 2011, upgraded an existing interconnection with Germany in Lasów in January 2012 and finally expanded a metering station in Mallnow at the Polish-German border enabling virtual and physical reverse flow at the Polish section of the Yamal-Europe pipeline. The implementation of these projects fostered Poland's energy security through the creation of technical conditions to diversify the natural gas supply.

The Polish Energy Law Act determines the unbundling rules off TSO, DSO and SSO. It is aimed at ensuring efficient unbundling of gas transmission, distribution and storage activity from activities connected with the production or supply of natural gas.

The TSO is to provide the shipper with:

- access to the transmission system by offering available capacity at physical entry points and physical exit points to the network users under a transmission contract, in accordance with the terms and conditions set forth in the Transmission Network Code (TNC);
- transmission of gaseous fuel for the purposes of delivery to the distribution systems and the storage facilities.

The TSO provides gas transmission and balancing services to the shippers under a transmission contract in accordance with the terms and conditions set forth in the Transmission Network Code.

For further information, please visit ***www.gaz-system.pl***

PRELIMINARY DESCRIPTION OF THE PROSPECTIVE EXPANSION

Description of how to transport gas from Norway to Poland via Denmark

Transportation of Norwegian gas from Norway to Poland via Denmark consists of five major projects:

1. A Danish upstream tie-in from the Norwegian system in the North Sea to the Danish landing point (the "Norwegian tie-in").
2. Expansion of the existing west-east capacity in the Danish onshore transmission system (the "Danish Expansions").
3. Compressor Station Zealand located on the Danish shore ("CS Zealand").
4. A transmission offshore pipeline between Denmark and Poland, from South-east Zealand through the Baltic Sea, and the receiving terminal and onshore pipeline to connection to existing transmission system in Northwest Poland (the "Offshore Interconnector").
5. Expansion of Polish transmission system (the "Polish Expansions").

Overview of the project

Tie-in to the Norwegian upstream system in the Danish part of the North Sea

During a feasibility study in 2016, Energinet.dk and GAZ-SYSTEM S.A. identified the recommended solution to be tie-in to Europipe II in the Danish part of the North Sea, a new pipeline to shore (Nybro) and a new gas receiving terminal. The selection of the recommended solution was based on costs, time schedule, complexity of the authority approval procedures, number of stakeholders, technical complexity, reliability, availability and maintainability, ownership of the installation, project risks, risk and safety during operation, synergies and other issues.

Expansion of the transmission system throughout Denmark

The transmission system across Denmark will be extended in order to transport the increased gas flow. The capacity of the existing gas transmission system will be utilised. The routing of necessary new pipelines will be parallel to existing pipelines where possible. In other areas, the pipeline routes will be optimised with regard to existing buildings and of nature protection etc.

The full expansion project will include approximately 220 km new pipeline located in Jutland across the waters to Funen, on Funen across the waters to Zealand and on Zealand.

Compressor Station Zealand

A new compressor station must be established in SE Zealand, close to the landfall of the offshore pipeline to Poland, to increase the pressure in the pipeline to Poland. The compressor station will be designed for bidirectional operation, i.e. it will be possible to export gas from Denmark to Poland and to export gas from Poland to Denmark.

New offshore pipeline from Denmark to Poland

Several route options have been evaluated in the Feasibility Study, and the considered routes are through the German EEZ or through the Swedish EEZ with a recommended landfall location at the north coast in Poland (Niechorze area). The length of the offshore pipeline is between 227 and 286 km.

Several landfall options have been evaluated in Poland, and the preferred solution is landfall at Niechorze and a tie-in to the Polish transmission system at Gas Node Płoty.

Expansion of the national transmission system in Poland

It must be pointed out, that on the Polish side, the gas transmission system in North Western and Central Poland will require the expansion in order to offtake future gas coming from combined Baltic Pipe Project and extension of the LNG Terminal.

The detailed scope of the additional investment on Polish side will depend on the results of the Open Season procedure.

THE OPEN SEASON PROCESS IN THE CONTEXT OF THE BALTIC PIPE PROJECT

What is an Open Season?

"Open Season" is a procedure by which an infrastructure provider, e.g. a transmission system operator (TSO) such as GAZ-SYSTEM S.A and Energinet.dk, asks the market whether:

- New/added capacity is needed by the shippers; and
- The shippers will commit themselves contractually to the relevant business case, if the infrastructure provider undertakes the construction.

Historically, Open Season has been used in a variety of forms as a method of providing new infrastructure in European countries.

The means to commit the shippers (both present and potential) to the relevant business case off the new capacity under an Open Season process are long-term capacity reservation agreements. If such agreements are consistent with the market's needs, and with the applicable EU regulation, and all shippers have received the same information on the analysed project, the Open Season can determine the appropriate dimensions of new infrastructure on an open and non-discriminatory basis.

The structure of the Open Season process

As the figure below shows, the process of Open Season 2017 is divided into two phases. The first phase concerns the preparation of the Open Season, and the second phase concerns the allocation of capacity.

The Preparation phase

In this phase, both of the respective TSOs as well as the market are being prepared for the Open Season 2017.

Market analysis and feasibility study

In 2016, Energinet.dk and GAZ-SYSTEM S.A. decided to investigate the possibility of establishing an interconnection between the two national markets through a bidirectional offshore pipeline and expansion of the national transmission systems to ensure full functionality of the new pipeline. In addition, an offshore infrastructural connection between Denmark and Norway was also investigated. The results of this investigation will be presented in the feasibility study at the end of 2016.

As a part of the feasibility study, a market test was conducted in May 2016. This provided the opportunity for the shippers to indicate their interest in the project in a non-binding way. The information has been used to optimize the scope of the project to the results of the market test. Moreover, the results of the market test were promising and initiated these next steps in the process by way of an open season process.

Market consultation

To ensure a transparent Open Season process and to enable the market to get involved in the process, a market consultation of the Open Season 2017 Rules is expected to take place from the beginning of December 2016 to 6 January 2017.

All interested parties in the market are invited to participate in the market consultation. After the consultation, Energinet.dk and GAZ-SYSTEM S.A. will evaluate the responses received during the consultation, and adjust the Open Season 2017 Rules, if necessary. Moreover, Energinet.dk and GAZ-SYSTEM S.A. will inform the NRAs about the market consultation, the outcome thereof and inform the NRAs or obtain their approval of the final version of the Open Season 2017 Rules (as the case may be).

Publication of the final Open Season 2017 Rules

The TSO's plan is to publish the final Open Season 2017 Rules at the beginning of February 2017.

At the end of the preparation phase, the interested shippers will be allowed to submit binding commitments (bids) in the form of an Order to Proceed, concerning the capacity which will become available as a result of the implementation of the Baltic Pipe Project. The deadline of the shipper to provide a binding commitment by submitting an Order to Proceed is six weeks after the publication of the final Open Season 2017 Rules (start of March 2017). If shippers submit a total of Orders to Proceed for a sufficient amount of capacity, Energinet.dk and GAZ-SYSTEM S.A. will introduce fast track implementation of the Baltic Pipe Project, which would aim at facilitating gas transportation from 1 October 2022.

If no Orders to Proceed are submitted, gas transportation as of 1 October 2022 cannot be assured. In that case, gas transportation is expected to be possible at the earliest from 1 October 2023, if the Baltic Pipe Project continues.

The submitted Order to Proceed will obligate the shipper to place a bid for at least the same amount of capacity as stated in the Order to Proceed in the allocation phase during the Open Season 2017. The Order to Proceed will not give a shipper any priority in the allocation phase. If a shipper, which has submitted an Order to Proceed does not place a bid for at least the

same amount of capacity as stated in the Order to Proceed in the allocation phase, the shipper will be liable to pay liquidated damages to Energinet.dk and/or GAZ-SYSTEM S.A. Energinet.dk will determine the amount of the liquidated damages with regard to the Danish points. GAZ-SYSTEM S.A. will determine the amount of the liquidated damages with regard to the Polish point.

Information updates

During the Open Season process, it is expected that the market will get information updates when new information is available. Moreover, at least one general information meeting is planned in connection with the launch of the market consultation to inform the market about the Open Season 2017. The meeting will take place on 8 December 2016 at Energinet.dk's office in Ballerup.

Relevant information will continuously be published on:

www.energinet.dk/openseason2017
www.en.gaz-system.pl/strefa-klienta/konsultacje-z-rynkiem/aktualne-konsultacje/open-season-baltic-pipe/

The Allocation phase

In this phase, the shippers will be able to place a binding bid for a certain amount of capacity at each point in the route. It is envisaged, that if there is an over-demand, the available capacity will be allocated pro-rata.

Allocation

Shippers can submit binding bids for capacity to Energinet.dk and GAZ-SYSTEM S.A. The allocation of the Open Season 2017 capacity will be based on the results off the binding bids.

In case of an over-demand in the binding phase, bids are handled with the following priority in the pro-rata mechanism:

- Priority 1: bids for a maximum possible contract duration (15 years)
- Priority 2: bids for a contract duration of 14 years
- Priority 3: bids for a contract duration of 13 years
- Etc.

After the allocation, both TSO's will conduct an economic test to assess whether the Baltic Pipe Project is economically viable and feasible. The economic test can be positive or negative. Energinet.dk and GAZ-SYSTEM S.A. will conduct a test individual.

Capacity agreement with conditions precedent

Energinet.dk and GAZ-SYSTEM S.A. will enter into conditional capacity agreements with the shippers, which have been allocated capacity in the final binding phase, if the Baltic Pipe Project shall be financially and socio-economically viable for both TSOs.

The capacity agreements will be subject to conditions precedent.

Overview of main parameters

Relevant Entry and Exit Points:

The Points relevant for Open Season 2017 are listed below:

- North Sea Entry Point (Energinet.dk)
- Bi-directional Interconnection Point Baltic Pipe (Energinet.dk/GAZ-SYSTEM)

Type of Capacity:

At the North Sea Point, the OS 2017 Capacity will be offered in Open Season 2017 as unbundled firm capacity on the Danish side of the Tie-in. This means that the capacity booking in Open Season 2017 does not include capacity in the Norwegian transportation system.

At the Interconnection Point Baltic Pipe, the OS 2017 Capacity will be offered in both directions.

From Denmark towards Poland, the OS 2017 Capacity is offered as a bundled product, bundling the Interconnection Baltic Pipe Exit Point on the Danish side with the Interconnection Baltic Pipe Entry Point on the Polish side.

From Poland towards Denmark, the OS 2017 Capacity is offered as a bundled product, bundling the Interconnection Baltic Pipe Exit Point on the Polish side with the Interconnection Baltic Pipe Entry Point on the Danish side.

Amount of capacity available in the contemplated expansion:

At the North Sea Point, the OS 2017 Capacity offered in Open Season 2017 is equal to 12,780,900 kWh/h.

At the Interconnection Point Baltic Pipe, in the direction from Denmark to Poland, the OS 2017 Capacity offered in Open Season 2017 is equal to 12,069,900 kWh/h.

At the Interconnection Point Baltic Pipe, in the direction from Poland to Denmark, the OS 2017 Capacity offered in Open Season 2017 is equal to 3,467,466 kWh/h.

Capacity offered in Open Season 2017:

During the Open Season 2017, 90 per cent of the envisaged technical capacity of the relevant points will be offered for long term contracts. The long term contracts will have a duration of 15 gasyears.

10 per cent of the envisaged technical capacity will be reserved for short term contracts. This capacity is expected to be offered during the ordinary auctions conducted by Energinet.dk and GAZ-SYSTEM S.A.

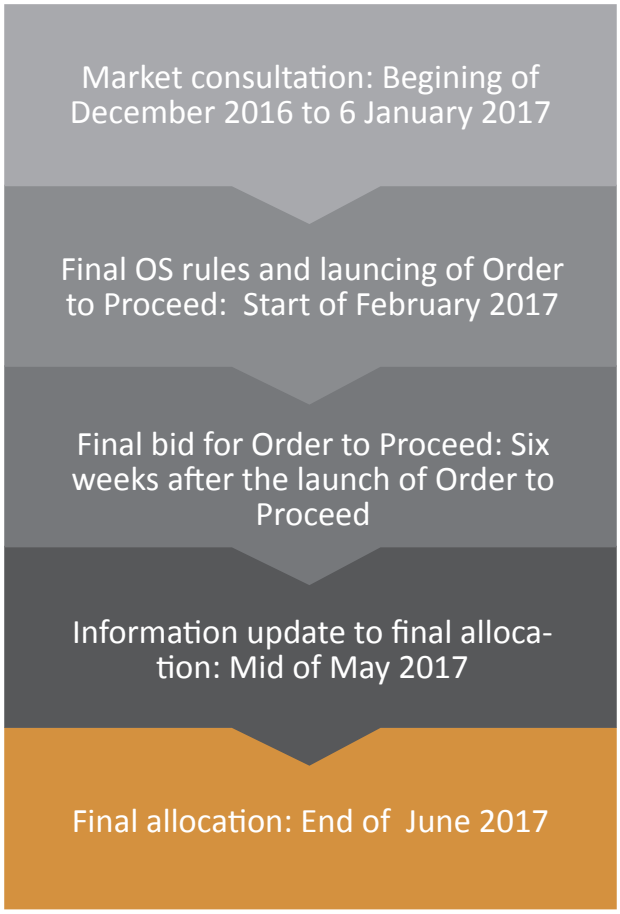
Start of the service:

Energinet.dk and GAZ-SYSTEM S.A. are aiming at starting the

transmission service in the expansion in the gas year of 2022, which means that the first gas can be transported on 1 October 2022. However, to be able to facilitate the start of the service as of this date, a submission of sufficient Orders to Proceed is required by the shippers.

Time schedule for the launching of the Open Season

The Open Season will be launched after the market consultation of the Open Season rules and approval process of the final version of the Open Season documentation by the relevant NRA's. The Open Season will last until the conditional capacity agreements have been signed after the final allocation. This is expected to be in the second half of 2017. Please see the overall time schedule below:



The process and rules of the Open Season 2017 are based on a close dialogue with the respective national regulatory agencies (NRAs) in Denmark and Poland. All activities in the process of the Open Season 2017 are based on regulation and guidelines at EU level and national level.

Coordination between Energinet.dk and GAZ-SYSTEM S.A.

Energinet.dk and GAZ-SYSTEM S.A. will publish the coordinated Open Season materials by start of December 2016 at the launch of the market consultation. The Open Season procedure has been designed and will be conducted by Energinet.dk and GAZ-SYSTEM S.A. in cooperation.

Booking capacity in the Norwegian transportation system

The shipper should be aware that the Open Season 2017 does not include booking of capacity in the Norwegian transportation system. It is the shipper's own responsibility to have available capacity in the Norwegian system.

For more information regarding booking capacity in the Norwegian transportation system, please see *www.gassco.no/en/our-activities/capacity-management/gassled-booking-eng/*

COMMUNICATION WITH ENERGINET.DK AND GAZ-SYSTEM S.A.

Shippers and other stakeholders may contact Energinet.dk and GAZ-SYSTEM S.A. regarding the Open Season process as follows:

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Agnieszka Ozga, agnieszka.ozga@gaz-system.pl, +48 22 220 17 50

For more information, please also see following websites, where questions and answers from shippers regarding Open Season 2017 will be published:

www.energinet.dk/openseason2017
www.en.gaz-system.pl/strefa-klienta/konsultacje-z-rynkiem/aktualne-konsultacje/open-season-baltic-pipe/