TAP TARIFF CODE

Trans Adriatic Pipeline AG

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Definitions from Gas Transportation Agreement

The terms defined in the Gas Transportation Agreement and used in this TAP Tariff Code are as follows:[1]

Capacity Product means each of the natural gas transportation capacity services offered in the TAP Transportation System.

Commercial Reverse Capacity means transportation capacity in the TAP Transportation System for the virtual reverse flow transportation of natural gas, consisting of capacity that must be booked as a combination of an Entry Point and an Exit Point as specified in the Operations Code and that the Transporter is permitted to interrupt in accordance with the relevant provisions contained in the Operations Code, with such provisions reflecting the need for a sufficient forward flow between the desired Locations to enable virtual reverse flow.

Entry Point means, in respect of a Gas Transportation Agreement, any Location specified as such in that Gas Transportation Agreement being the Location at which natural gas will be provided for transportation by the Shipper.

Exit Point means, in respect of a Gas Transportation Agreement, any Location specified as such in that Gas Transportation Agreement being the Location at which natural gas will be redelivered to the Shipper.

Forward Day-Ahead Interruptible Capacity means Capacity Products for transportation capacity in the TAP Transportation System booked by reference to a separate Entry Point and Exit Point for the forward transportation of natural gas which is made available by the Transporter to Shippers on a day-ahead basis and which the Transporter is permitted to interrupt in accordance with the relevant provisions contained in the Operations Code.

Forward Firm Long-Term Capacity means Capacity Products for transportation capacity in the TAP Transportation System booked by reference to a separate Entry Point and Exit Point for the forward transportation of natural gas that is made available to Shippers for a period of more than one year and which the Transporter is not permitted to interrupt except for planned maintenance, capacity restrictions or a force majeure.

Forward Firm Short-Term Capacity means Capacity Products for transportation capacity in the TAP Transportation System booked by reference to a separate Entry Point and Exit Point for the forward transportation of natural gas that is made available to Shippers for a period of one year or less and which the Transporter is not permitted to interrupt except for planned maintenance, capacity restrictions or a force majeure.

Forward Firm Within-Day Capacity means Forward Firm Short-Term Capacity in the TAP Transportation System for the transportation of natural gas in a forward direction at the relevant Location that is made available to Shippers under a Gas Transportation Agreement at a particular Location for the remaining period of hours in a Gas Day, up to the full Gas Day and that is booked before or during the relevant Gas Day but following the close of the day-ahead auctions for that Gas Day.

[1] The definitions in this section are included for convenience only so that parties can read the Tariff Code as a standalone document. These definitions reflect those already included in the General Terms and Conditions (GTCs) (either directly or by reference to the transportation confirmation / operations code). Therefore this section will not be included when the section of the Tariff Code starting with the heading “GTC Schedule 5 Tariff” is incorporated as Schedule 5 to the GTCs.

Gas Day means a period of 24 hours commencing at 05:00 hrs UTC (or, when daylight saving time is applied, at 04:00 UTC) on a particular calendar day and ending at the same time on the following calendar day.

Gas Transportation Agreement means an agreement for the transportation of natural gas between the Transporter and a Shipper for the use of one or more Capacity Products offered by the Transporter, consisting of a transportation confirmation and including the General Terms and Conditions and the Operations Code incorporated by reference into such agreement.

Gas Year means the period commencing at the start of the first Gas Day beginning in October in each calendar year and finishing at the end of the Gas Day that begins in the last calendar day in September in the following calendar year, provided that the first Gas Year will start on the first Gas Day on which the Transporter provides transportation services to a Shipper in accordance with a Gas Transportation Agreement.

Governmental Authorities means any national or local government, any regulatory or administrative agency, commission, body or other authority, and any court or governmental tribunal lawfully exercising jurisdiction over the Operations Code, any Gas Transportation Agreement and/or the facilities and equipment comprising the TAP Transportation System.

kWh means a kilowatt-hour.

Location means any physical interconnection points between the TAP Transportation System and any natural gas transportation systems which the TAP Transportation System is directly connected to, as specified in the Operations Code, and to which gas is delivered or re-delivered.

Monthly Statement means the monthly statement issued to each Shipper, taking the form of a tax invoice, detailing the payments to be made between such Shipper and the Transporter.

Operations Code means the operations code to be issued by the Transporter pursuant to the obligations set out in Article 4.7.1 of the Joint Opinion and which contains the rules and procedures for the operation of the TAP Transportation System, as such code may be amended or updated from time to time in accordance with the procedures set out in such code.

Reasonable and Prudent Operator means a person exercising that degree of skill, diligence, prudence, and foresight that would reasonably and ordinarily be expected from a skilled and experienced operator complying with all applicable laws and engaged in the same type of undertaking under the same or similar circumstances.

Registered Party means any person that has satisfied the conditions to becoming a Registered Party in accordance with the Network Code and has received confirmation from the Transporter of its status as a Registered Party.

Reserve Price means the starting price for the auctions of any Capacity Product.

Reserved Capacity means, in respect of a Shipper under a Gas Transportation Agreement, the maximum daily capacity (expressed in kWh per Gas Day) in the TAP Transportation System that the Transporter shall (subject to terms applicable to the relevant Capacity Product in that Gas Transportation Agreement) reserve, make available and provide to that Shipper, as specified in the relevant Gas Transportation Agreement.

Shipper means, in respect of a specific Gas Transportation Agreement, the person identified as the Shipper under that Gas Transportation Agreement.

TAP Transportation System means the natural gas pipeline system, including pipes above and below ground and all other related equipment owned, or used and operated, by the Transporter in order to provide natural gas transportation services in accordance with any Gas Transportation Agreement.

Tariff means the tariff for a particular Capacity Product and Entry Point or Exit Point, as published by the Transporter and determined in accordance with this TAP Tariff Code.

Transporter means Trans Adriatic Pipeline AG, a company existing under the Laws of Switzerland having its registered office at Lindenstrasse 2, 6340 Baar, Switzerland.

UTC means Coordinated Universal Time, as defined from time to time by the International Telecommunications Union agency of the United Nations.

Tariff Methodology

The TAP tariff methodology follows the basic requirements set by the Joint Opinion regarding a tariff that:

- reflects efficient costs
- is transparent and applied in a non-discriminatory way

The initial CapEx and OpEx estimates have been made using FEED reports prepared by the Transporter's "Technical Service Providers", being from Statoil (offshore) and E.ON (onshore), which have been consolidated and vetted by the Transporter. The Transporter has used efficient cost estimates for the initial scope.

The Transporter's tariff is a uniform tariff, whereby all Shippers in the TAP Transportation System pay the same tariff for the same Capacity Product, with the exception of any premiums resulting from auction procedures.

The provisions of this Tariff Code starting with the heading "GTC Schedule 5 – Tariff", will be included as Schedule 5 to TAP's General Terms and Conditions and will therefore form part of the Gas Transportation Agreements to be entered into between TAP and each of its Shippers on a bilateral basis.

Schedule 5 to the GTCs defines capacity charges. Usage charges, including, but not limited to, costs and expenses incurred by the Transporter in procuring fuel gas or electric power, will be allocated to Shippers in accordance with provisions in the Operations Code.

Changes to Schedule 5

In general, the Transporter may update its GTCs, including Schedule 5 below, from time to time by publishing the updated GTCs on its website. These updated GTCs will apply for all Gas Transportation Agreements entered into after the date of the update. For existing Gas Transportation Agreements, the Transporter may only amend the GTCs forming part of those Gas Transportation Agreements with the express written consent of the Shipper. There is an exception to this general rule where the amendment is required to comply with an applicable law – in this case the Transporter must consult with the Shippers, but can make amendments to existing GTCs provided that it (a) obtains any required regulatory approvals and (b) proposes the same amendments for all of its Shippers. Transporter will use reasonable endeavours to avoid amendments which have a material adverse effect on the interest of the Shippers.

In order to update Schedule 5, the Transporter acknowledges that it must obtain regulatory approval before implementing any amendments, as Schedule 5 forms part of the Tariff Code initially approved as required by Article 4.2.1 of the Joint Opinion. Any amendments to Schedule 5 shall further comply with the principle of non-discrimination between Shippers which are party to a Gas Transportation Agreement existing at the time of the amendment of the GTCs and shippers which enter into a Gas Transportation Agreement subsequent to such amendment.

Transporter's obligations towards the Authorities

Within the cooperation between the Transporter and the Authorities as for Article 4.2.1 of the Joint Opinion, the Transporter shall send to the Authorities a yearly monitoring report. The monitoring report shall:

a. inform the Authorities about the TAP Tariffs and revenues including target revenues, actual revenues, Initial and Expansion Capacity Bookings;

b. provide evidence on the compliance of the TAP Tariff Code with the Joint Opinion, clearly indicating the values of the parameters used in the calculation of the TAP Tariff, especially those described in Clause 2 and Clause 4 of the TAP Tariff Code.

The Transporter shall publish the TAP Tariff Code on its website.

The Transporter must obtain regulatory approval before implementing any amendment of the TAP Tariff Code as required by Article 4.2.1 of the Joint Opinion.

GTC Schedule 5 – Tariff

1 Tariff principles and Target Revenue Definition

1.1 Definitions

Authorities mean jointly the Greek, Albanian and Italian energy authorities, as referenced in the Joint Opinion.

CapEx has the meaning given to it in Clause 1.2.

Commercial Operation Date means the date on which TAP Pipeline System will be completed and able to receive, transport and re-deliver natural gas, as referred to in the Joint Opinion.

Economic Viability Test has the meaning given to it in Clause 3.3.1.

Expansion means an expansion of the TAP Transportation System conducted by the Transporter for the provision of Expansion Capacity.

Expansion Capacity means capacity in the TAP Transportation System made available in addition to Initial Capacity, up to 10 bcma, as referenced in the Joint Opinion.

Expansion Capacity Bookings has the meaning given to it in Clause 3.3.

Expansion Recovery Period means, in respect of any Expansion, the period starting on the day on which the relevant Expansion first becomes commercially operational and ending on the earlier of (a) the day on which the gas transportation agreements regarding the relevant Expansion Capacity expire, and, if such gas transportation agreements expire on different days, on the day of expiry which falls last in time and (b) the day falling 25 years after the first day of such period.

First Booking Phase means the first booking phase to be conducted by the Transporter within three months of a final investment decision in accordance with Article 4.1.5 of the Joint Opinion.

Initial Capacity means the capacity constructed and made available in the first phase of the TAP Transportation System, planned to be 10 bcma, as referenced in the Joint Opinion.

Joint Opinion means the Final Joint Opinion of the Italian, Albanian and Greek energy regulators on TAP AG's Exemption Application, issued on June 6, 2013.

Market Test means a market test process conducted by the Transporter to assess interest of all potential users in contracting capacity before capacity allocation in the new infrastructure takes place, as referred to in the Joint Opinion.

OpEx has the meaning given to it in Clause 1.2.

Planned COD means, at any time, the date that is then planned to be the Commercial Operations Date, adjusted as described in Clause 1.5 below.

Recovery Period means the 25 year period with exemption from regulated tariffs, granted by Article 4.2 of the Joint Opinion, starting from the Commercial Operation Date.

Residual Initial Capacity means any share of Initial Capacity that is not reserved for long term shippers of Shah Deniz II gas or is required to be reserved for marketing as short term Capacity Products in accordance with the Joint Opinion.

Tariff Calculation Model has the meaning given to it in Clause 1.2.

Target IRR has the meaning given to it in Clause 1.3.

Target Revenue means the annual revenue stream , required to achieve the Target IRR by the end of the Recovery Period, as may be recalculated upon an Expansion pursuant to Clause 3.3.3.

Total Capacity means the sum of Initial Capacity and Expansion Capacity, up to a total of 20 bcma, as referenced in the Joint Opinion.

1.2 Tariff principles

The tariff will be an amount in EUR/kWh/Gas Day/Gas Year which will be used to calculate the charges for bookings of Reserved Capacity. The amount of the tariff will be dependent on the Capacity Product booked and the Entry Point or Exit Point at which the Reserved Capacity is booked. The Tariff will be calculated in accordance with this Schedule 5.

The initial Tariffs will be determined in accordance with a computer model (the "**Tariff Calculation Model**") developed by the Transporter which based on a discounted cash flow methodology calculates the Target Revenue. The tariffs applicable to the Initial Capacity will be determined from the annual applicable Target Revenue in accordance with the formulae and procedures set out in this Schedule 5. The Target Revenue calculated by the Tariff Calculation Model will be dependent upon inputs into the Tariff Calculation Model, including the Target IRR, capital expenditure ("**CapEx**") including development costs, operating expenditure ("**OpEx**"), working capital and timing assumptions. Further details on these are set out in Clauses 1.3 to 1.5 below. After final determination of these inputs, the initial Tariff will be calculated by the Transporter using the Tariff Calculation Model.

1.3 Target IRR

The **Target IRR is   %** on a nominal pre-tax basis. The actual project return may be higher or lower than the Target IRR, depending on, for instance, deviations between actual costs and the cost estimates that form the basis of the tariff calculation or deviations between the inflation assumption above and the actual inflation applied.

1.4 Cost estimate definition for tariff purposes for the initial scope

The CapEx and OpEx estimates for the calculation of the tariff for the Initial Capacity (to be available from the Planned COD) are calculated and will be updated according to the following:

a) Initial estimates for the Initial Capacity are based on FEED reports prepared by the Transporter's "Technical Service Providers".

b) The Transporter may be required to update the project scope and specifications during project development and may in such cases also update corresponding CapEx and OpEx estimates for tariff calculation purposes based on the following principles:

- costs will be calculated consistent with the past practice used during FEED;
- in accordance with good industry practice;
- with the aim of implementing the required changes in the project scope in an efficient manner;
- with the aim of minimising any adverse impact on the project schedule to the extent reasonably practical;

- to include additional costs only to the extent exclusively required by necessary scope changes;
- taking into consideration any possible costs savings;
- costs related to the construction of new entry or exit points are excluded.

c) The Transporter expects to award main contracts for the construction of the TAP Transportation System approximately four years prior to Planned COD. When most such contract awards have taken place, CapEx estimates for tariff calculation purposes will be finalised based on updated price information and no further CapEx or OpEx changes can be made under paragraph (b) above.

d) The Tariff applicable at the Commercial Operation Date for all shippers will be finalised when the Planned COD is finally defined as described in Clause 1.5(c) below. The Tariff may then be recalculated to account for (i) such final Planned COD and a 25 year project life and (ii) additional operating expenses the Transporter is estimated to incur (if any) from the time when TAP planned to be operational until the final Planned COD, as defined pursuant to Clause 1.5(c) below, always subject to the principles outlined in this section.

1.5 Planned Commercial Operations Date

The Planned COD assumed for the initial cost estimates is 1 January 2019.

The Planned COD for the purposes of tariff calculation for the Initial Capacity may change due to developments outside the scope of the TAP Transportation System, and will be defined according to the following:

a) The Planned COD will be updated by 31 December 2013 and a window of 36 months will be defined by the same date, within which the final Commercial Operation Date is scheduled to occur.

b) The Planned COD will be updated and the corresponding window will be narrowed to 12 months five years before the then expected Planned COD and then further narrowed to a three month window nine months before the start of the 12 month window, with changes to the Planned COD promptly notified to Shippers.

c) The Planned COD will be finally defined for the purposes of tariff calculation six months in advance of the three month window and promptly notified to Shippers.

The Target Revenue will be recalculated at certain times when the Planned COD is refined, including when the final Planned COD is known, in accordance with the principles specified in Clause 1.4 above.

For the purposes of the cost estimation and tariff calculation in paragraphs (a) and (b) above, the first day of the relevant time window will be the Planned COD.

1.6 Publication and Acceptance of the Tariff

a) The Tariff for each Capacity Product and each Entry Point and Exit Point calculated in accordance with this Schedule 5 will be published by the Transporter on its website. The estimated Tariff for each Capacity Product and each Entry Point and Exit Point, calculated in accordance with this Schedule 5 and taking into account the best information and knowledge as per Clause 1.4, will be disclosed to all participants to any booking phase, sufficiently in advance from the opening of the bidding rounds. The same information is sent to the Authorities. The Shipper agrees that the relevant Tariff, as published on the Transporter's website, will apply to the Reserved Capacity bookings under this Gas Transportation Agreement.

b) If this Gas Transportation Agreement is signed before the initial Tariffs are finalised, the Shipper agrees that the Tariffs applicable to the Reserved Capacity booked under this Gas Transportation Agreement will be the Tariffs notified to the Shipper by the Transporter after the final determination of such initial Tariff in accordance with this Schedule 5.

2 Tariff escalation

2.1 Target Revenue escalation

The Tariffs will be updated annually from start of construction (being the year in which the CapEx and OpEx estimates are finalised in accordance with paragraph (c) of Clause 1.4 above), based on an escalation of the Target Revenue at the start of each calendar year to protect its real value as calculated under the following formula:

$$TR_t = TR_{t-1} \cdot \frac{D_t}{D_{t-1}} \cdot \left[\alpha \cdot \left(40\% \cdot \frac{PI_{t-1}}{PI_{t-2}} + 60\%\right) + \beta \cdot \frac{WPI_{t-1}}{WPI_{t-2}}\right]$$

with:

TR_t Target Revenue in calendar year t;

TR_{t-1} Target Revenue in the calendar year t-1;

D_t Number of days in ~~Calendar Year~~calendar year t;

D_{t-1} Number of days in ~~Calendar Year~~calendar year t-1;

PI_{t-1} Euro area HICP ("Harmonised Indices of Consumer Prices" as defined in the Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index), as provided by Eurostat, the statistical office of the European Union, for the month of September in calendar year t-1;

PI_{t-2} Euro area HICP ("Harmonised Indices of Consumer Prices" as defined in the Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index), as provided by Eurostat, the statistical office of the European Union for the month of September in calendar year t-2;

α Weighting factor reflecting the CapEx component in the tariff;

β Weighting factor reflecting the OpEx component in the tariff;

WPI_{t-1} Weighted average inflation index in TAP's host countries, for calendar year t-1;

WPI_{t-2} Weighted average inflation index in TAP's host countries, for calendar year t-2.

The Target Revenue calculation before start of escalation, TR_{T0} is made in the year determined in paragraph (c) of Clause 1.4, approximately four years before the then current planned COD. TR_{T0} will be TR_{t-1} in the first year of escalation. TR_{T0} may be recalculated in accordance with paragraph (d) of Clause 1.4 above when Planned COD is finally defined.

The weighting factors α and β are calculated as:

$$\beta = \frac{OpEx_{T0}}{OpEx_{T0} + CapEx\,Annuity_{T0}},\ \alpha = 1 - \beta$$

Where:

T_0 is the year in which costs for tariff calculation purposes are fixed according to Clause 1.4(c) $OpEx_{T0}$ is equal to the average OpEx during the Recovery Period used in the Tariff Calculation Model in real terms at T_0, consisting of OpEx estimates for both historic and future periods converted to T_0 values using the actual historic inflation in the host countries, as defined in the table below, for the historic periods and projected inflation of 2% per annum for the future periods, and

CapEx Annuity T_0 is equal to the annual payment that corresponds to the straight-line annuity of the technical CapEx with a constant interest rate equal to the Target IRR over the Recovery Period.

The weighting of the inflation index, WPI, is done according to operating expenditure allocated to each host country in the Tariff Calculation Model, such split being equal to:

Section	Inflation index applied	Weighting (sum 100%)
Greece	Greek HICP (“$HICP_{GR,y}$”), as published by Eurostat for the month of September in calendar year y	$\frac{OpEx_{GR,T0}}{OpEx_{T0}}$
Albania	Albanian CPI (“$CPI_{AL,y}$”), as published by the Albanian Institute of Statistics for the month of September in calendar year y, translated into Euro terms by applying the average of the daily official exchange rates for each elapsed year for the month of September of calendar year y, as published by the Bank of Albania .	$\frac{OpEx_{AL,T0}}{OpEx_{T0}}$
Italy	Italian HICP (“$HICP_{IT,y}$”), as published by Eurostat for the month of September in calendar year y	$\frac{OpEx_{IT,T0}}{OpEx_{T0}}$

where $OpEx_{GR,\ T0}$, $OpEx_{AL,\ T0}$, and $OpEx_{IT,\ T0}$ are calculated similarly to $OpEx_{T0}$ above, but each of them solely for the amounts of OpEx assigned to the relevant host country.

WPI_{t-1} is therefore calculated under the following formula:

$$WPI_{t-1} = \frac{OpEx_{GR,T0}}{OpEx_{T0}} \cdot \frac{HICP_{GR,t-1}}{HICP_{GR,T0-1}} + \frac{OpEx_{AL,T0}}{OpEx_{T0}} \cdot \frac{CPI_{AL,t-1}}{CPI_{AL,T0-1}} + \frac{OpEx_{IT,T0}}{OpEx_{T0}} \cdot \frac{HICP_{IT,t-1}}{HICP_{IT,T0-1}}$$

The above weighting factors α and β, as well as the weighting of the inflation index, WPI, will be recalculated upon an Expansion, to reflect any change in the cost allocation.

2.2 Adjustment or replacement of indices

2.2.1 Temporary replacement

a) If a value of PI or any inflation index required for the calculation of WPI as referred to in the table above is not available for the end of the relevant year, then a provisional value will be used to calculate a provisional Tariff by using the data for the nearest period for which published data is available as if it applied to the end of the relevant year. In such event, the relevant Monthly Statement will note that it is calculated on the basis of provisional data.

b) Once the correct value is available the Tariffs will be recalculated and the difference between the amount payable on the basis of the provisional Tariffs and the amount payable on the basis of the final Tariffs will be included as a charge or a credit on the next Monthly Statement. If no further Monthly Statements are due to be issued under the Gas Transportation Agreement, then the Transporter will promptly upon final determination of the Tariff issue a final Monthly Statement in respect of the adjustments from the provisional Tariff.

2.2.2 Permanent replacement

a) If the Transporter at any time is of the reasonable opinion that in respect of PI or any index required for the calculation of WPI:

i. such index is permanently not available or the Transporter is unable to determine whether it is temporarily or permanently unavailable;

ii. any required value or values for such index have been computed or published in an erroneous form; or

iii. such index is changed in the basis of calculation or no longer reflects the inflation rate in the relevant country so as to materially affect the validity of indicator comparison over time,

then the Transporter shall have the right to notify the Shipper in writing of such circumstances, and the Transporter and the Shipper will consult upon an adjustment to or replacement of such index so as to achieve as closely as possible the same inflation indexation as the parties expect would have resulted had such event not occurred.

b) If there is a major change to the composition of the Euro area which is used to calculate the inflation index PI, the goal of maintaining the real value of equity investments in TAP in a major international currency shall be taken into consideration when suggesting any replacement index.

c) The Transporter, having consulted with the Shipper and the other Shippers and acting as a Reasonable and Prudent Operator, may notify the Shipper of an adjustment to or replacement of such index. Provided that the Transporter notifies all of its Shippers of the same adjustment or replacement then (without prejudice to any approval that may be required to be obtained by the Transporter from the Authorities), on and from the date of such notice, the relevant index will be amended or replaced in accordance with such notice.

3 Forward Firm Long-Term Capacity Bookings other than Initial Capacity Bookings

3.1 First Booking Phase

To the extent there are long term capacity bookings resulting from the First Booking Phase that can be accommodated by the Transporter without requiring any incremental investment (e.g. using Residual Initial Capacity), these will be taken into account in the Tariff Calculation Model in the same way as Initial Capacity Bookings, except that to the extent such long term capacity bookings expire before the end of the Recovery Period, the Target Revenue stream will be profiled in time according to the methodology described for Expansion Capacity Bookings in paragraph (c) of Clause 3.3.3.

To the extent incremental investment would be necessary to satisfy binding capacity requests under the First Booking Phase, the Transporter is required under Article 4.1.5 of the Joint Opinion to make such incremental investments. In such case, the Economic Viability Test described in Clause 3.3.1 which applies in the case of subsequent booking phases, does not need to be passed. However, the Transporter will still apply the same methodology for determining the technical solution and costs as are set out in Clause 3.3. The Target Revenue is recalculated as under Clause 3.3.3, and the resulting Tariff to be applied will not exceed the Tariff that would have applied with no bookings under the First Booking Phase.

3.2 Subsequent booking phases without Expansion

If Market Tests conducted after the First Booking Phase result in requests for additional Forward Firm Long-Term Capacity that can be accommodated in the then existing available capacity in the TAP Transportation System (taking into account the requirement to reserve capacity for short-term products in accordance with Article 4.1.10 of the Joint Opinion), then these will be taken into account as additional bookings in the Tariff Calculation Model to result in a recalculated Tariff on the basis of the new capacity bookings. However, to the extent such long term capacity bookings expire prior to the end of the Recovery Period, the Target Revenue stream will be profiled in time according to the methodology described for Expansion Capacity Bookings in paragraph (c) of Clause 3.3.3.

3.3 Subsequent booking phases requiring Expansion

Market Tests conducted after the First Booking Phase may result in requests for additional capacity bookings exceeding the then installed capacity ("**Expansion Capacity Bookings**"). TAP has foreseen Expansions up to a maximum Total Capacity of 20 bcma through the addition of pre-defined additional compressor stations and additional compressor units within compressor stations. Such capacity expansion entails additional life cycle costs for the TAP Transportation System, as it requires additional CapEx, and will cause OpEx to increase as well. Such additional costs must be remunerated by an increase in the Target Revenue. However, the Economic Viability Test and the provisions on recalculation upon technical completion of an Expansion in paragraphs (a)~~-~~ to (d) of Clause 3.3.3 ensure that unit tariffs will not increase as a consequence of an Expansion.

3.3.1 Economic Viability Test

The methodology applied to determine whether an Expansion is economically viable (the "**Economic Viability Test**") is as follows:

a) incremental revenue calculation: The applicable tariffs prior to the Expansion to be evaluated are used to calculate the hypothetical revenues from each binding Expansion Capacity Booking request in the booking phase of the Market Test;

b) definition of technical solution: The Transporter defines a technical solution to provide at least the aggregate requested capacity, always taking into account the requirement to make available at least 10% of actually built Expansion Capacity for short-term products, in accordance with Article 4.1.10 of the Joint Opinion. If the requested capacity would result in the TAP Transportation System exceeding a Total Capacity of 20 bcma, a solution providing such Total Capacity of 20 bcma shall be defined, without prejudice to the Transporter's obligation to investigate the possibility to further expand capacity under Article 4.1.9 of the Joint Opinion;

c) cost estimate for implementing the technical solution: The Transporter prepares a cost estimate (CapEx, OpEx and working capital) according to the Transporter's own methodology, which shall to the extent possible be consistent with past practice, be in line with industry practice for a Reasonable and Prudent Operator of pipeline infrastructure and take into account any economies of scale. The cost estimate will be based on efficient costs;

d) Economic Viability Test: The net present value of the cost estimates from paragraph (c) above and hypothetical incremental revenues from paragraph (a) above is calculated in the Tariff Calculation Model, applying Target IRR as the discount factor. If Total Capacity of 20 bcma is not sufficient to meet demand, only bookings that can be accommodated by the defined technical solution are taken into account, according to the prioritisation under paragraph (e) below. If the resulting NPV is negative, the Transporter shall investigate whether a technical solution meeting only part of the demand could result in a positive NPV, and also on a reasonable efforts basis discuss with the participants in the booking phase any changes to the respective bookings or other commercial solutions that would enable a positive NPV. If there is still no solution with a positive NPV, the Transporter considers the Economic Viability Test failed, and will inform the Authorities of this situation. Unless the ensuing process involving an independent third party opinion described in Article 4.1.8 of the Joint Opinion results in a different outcome, there will be no Expansion resulting from the Market Test; and

e) congestion management: In the event that the chosen technical solution cannot satisfy all binding requests for Expansion Capacity Bookings, then the net present value ("NPV") of the hypothetical revenues from each binding Expansion Capacity Booking request under paragraph (a) above is calculated with Target IRR as the discount factor. The booking requests are then prioritised according to NPV divided by the amount of yearly capacity requested, with booking requests with the highest NPV per capacity unit being allocated capacity first.If two or more booking requests have the same ratio of NPV/yearly capacity and these booking requests are due to be allocated capacity in accordance with the prioritisation procedures, but there is insufficient Expansion Capacity remaining to fulfil each such booking, then auction procedures (to be defined in the appropriate guidelines) will be applied to prioritise between these booking requests. After all capacity bookings with priority have been satisfied in full, the Transporter will reduce the capacity for the marginal booking to the level that can be fulfilled by the chosen technical solution. If the guidelines governing the Market Test in question gives the relevant shipper the right to withdraw its capacity booking if it is not allocated its requested capacity in full, and the marginal shipper exercises this right, then the Transporter will repeat the Economic Viability Test, including defining a new technical solution, on the basis of the capacity bookings received during the Market Test excluding the booking of the withdrawing shipper.

3.3.2 Expansion rate of return

For the purposes of the Economic Viability Test and the subsequent Target Revenue recalculation, the Target IRR of % on a nominal pre-tax basis is applied over the Expansion Recovery Period. However, in order to reflect the assumed lower risk of an Expansion investment compared to the initial investment, as called for by the Joint Opinion, the Transporter will also treat any Expansion Capacity Bookings going beyond the end of the Recovery Period as if the TAP tariff would continue to apply, knowing that a regulated tariff regime is expected to apply after the end of the Recovery Period, resulting in an unknown, but presumably lower actual rate of return on such Expansion investments than on the initial investment.

3.3.3 Target Revenue and Tariff recalculation upon Expansion

After passing the Economic Viability Test, the recalculation of the Target Revenue and the Tariff to be applied from the beginning of an Expansion Recovery Period shall be done as follows:

a) the Target Revenue stream calculated without the Expansion is maintained unchanged in the calculations;

b) the hypothetical revenue from the Expansion bookings after the Economic Viability Test and the applicable tariffs prior to the Expansion is used as an initial assumption for the incremental Target Revenue of the Expansion. This interim incremental Target Revenue stream is compared with the corresponding incremental life cycle costs for the Expansion. This interim incremental Target Revenue assumption is then iterated until the incremental expansion revenues and costs achieve the Target IRR by the end of the Expansion Recovery Period (i.e. the Tariff Calculation Model finds an incremental Target Revenue stream that yields an incremental NPV of zero with a discount factor equal to the Target IRR). The application of lower or equal tariffs is imposed as a boundary condition to the Target Revenue calculations and the total Target Revenue stream will thus result in a unit tariff profile that is lower or equal to the unit tariffs that would apply without expansion;

c) in order to avoid unit tariffs going up again due to the expiry of Expansion Capacity Bookings, the incremental Target Revenue stream calculated in paragraph (b) above will be reprofiled whenever any Expansion Capacity Bookings expire prior to the end of the Recovery Period. In such cases, the Target Revenue stream will be profiled in time so as to prevent any increase in unit tariffs due to falling booking levels until the end of the Recovery Period. The underlying assumption on incremental Target Revenue for the Expansion, with both positive and negative values, is iterated and convergence is achieved when this incremental Target Revenue stream, combined with the incremental life cycle costs for the Expansion, achieves the Target IRR by the end of the Recovery Period or the Expansion Recovery Period, whatever comes last, and when this is not possible when the maximum tariffs allowed have been applied; and

d) upon technical completion of an Expansion, as specified in the guidelines of the relevant Market Test, the Transporter will recalculate the Target Revenue and the Tariff on the basis set out in paragraphs (b) to (c) above, based on actual incremental CapEx incurred, final estimates of incremental OpEx and the actual commercial start date for the

$$T_{fwd,entry,t} = (50\% \cdot TR_t) \cdot \left(\frac{1}{\sum_{j=1}^{n} C_{fwd,entry,t,j}} \right)$$

expanded capacity. The information included in such recalculation may be subject to review by an independent third party on the initiative of the Authorities.

The Target Revenue stream from the start of the Expansion Recovery Period will be equal to the sum of (i) the incremental Target Revenue stream from (b) to (d) above and (ii) the Target Revenue stream calculated without the Expansion. The Tariffs calculated will be notified to the Shipper by the Transporter and will be published on the Transporter's website following completion of the Expansion. The revised Tariffs will apply to both new and existing capacity bookings on and from the date notified to Shippers by the Transporter, being at the earliest the actual date for commercial availability of the expanded capacity.

3.4 Regular auctions

In addition to the Market Tests, the Transporter will provide all available capacity to the market through regular auctions. Capacity Products sold under such conditions will not lead to any investment obligation for the Transporter and will also not lead to a recalculation of Target Revenue. Income generated by such means, leading to the revenues of the Transporter exceeding Target Revenue, will be redistributed as described in Clause 5.

4 Entry and exit tariffs

The following section defines the relevant entry and exit Tariffs applicable at each Location as an entry and exit point, depending on the Capacity Product booked by the Shipper. The following section also defines the operation fee payable in respect of bookings of Forward Firm Within-Day Capacity.

4.1 Forward Firm Long-Term Capacity

The fee structure for Forward Firm Long-Term Capacity in the TAP Transportation System follows an entry-exit system, so that Shippers will pay Tariffs in respect of each entry capacity booking and each exit capacity booking they make. The initial technical scope for the TAP Transportation System only includes an entry point at the Greek-Turkish border (Kipoi) and an exit point in Italy (province of Lecce). However, the Tariff for any current or future entry or exit point will be calculated according to the following methodology:

Entry tariff (same tariff for all entry points):

where:

$T_{fwd,entry,t}$ Forward entry tariff at every entry point, in EUR/KWh/Gas Day/Gas Year

TR_t	Target Revenue for the specific tariff calculation year t, in EUR
$C_{fwd,entry,t,j}$	Total Initial Capacity Bookings and Expansion Capacity Bookings for Forward Firm Capacity for entry at each entry point, j during the specific tariff calculation year, in KWh/Gas Day.
j	Denotes the unique serial number indicating the entry or exit points within the TAP pipeline system. Entry/exit points are assigned unique serial numbers, 1 being assigned to the easternmost entry/exit point and n to the westernmost one.
n	Total number of entry points in the TAP Transportation System.

Exit tariff (separate tariff for each exit point, x):

$$T_{fwd,exit,t,x} = (50\% \cdot TR_t) \cdot \left(\frac{L_{fwd,x}}{\sum_{j=1}^{n} \left(C_{fwd,exit,t,j} \cdot L_{fwd,j} \right)} \right)$$

where:

$T_{fwd,exit,t,x}$	Forward exit tariff at exit point x, in EUR/KWh/Gas Day/Gas Year
TR_t	Target Revenue for the specific tariff calculation year t, in EUR
$C_{fwd,exit,t,j}$	Total Initial Capacity Bookings and Expansion Capacity Bookings for Forward Firm Capacity for exit at each exit point j during the specific tariff calculation year, in KWh/Gas Day.
$L_{fwd,x}$	Pipeline length from easternmost entry/exit point to exit point x.
$L_{fwd,j}$	Pipeline length from easternmost entry/exit point to each exit point, j where forward flow exit capacity is booked for the specific tariff calculation year
j	Denotes the unique serial number indicating the entry or exit points within the TAP pipeline system. Entry/exit points are assigned unique serial numbers, 1 being assigned to the easternmost entry/exit point and n to the westernmost one.
n	Total number of entry points in the TAP Transportation System.

If as a result of a Market Test, the application of the Entry and Exit tariff formulas above would lead to an increase of the combined entry and exit tariff(s) applicable to any individual existing bookings, as compared to the case without the Market Test, then the formulas above will be applied only to the extent that they do not cause such increase in tariffs applicable to any Shipper. By way of example, in a case where an Economic Viability Test results in an NPV of zero, no unit tariffs will change compared to what would have been the case without the Market Test in question.

4.2 Forward Firm Short-Term Capacity

The fee structure for Forward Firm Short-Term Capacity through the TAP Transportation System follows an entry-exit system, so that Shippers will pay charges in respect of each entry capacity booking and each exit capacity booking they make. The following Forward Firm Short-Term Capacity products are available in the TAP Transportation System:

- Forward Firm Yearly Capacity
- Forward Firm Quarterly Capacity
- Forward Firm Monthly Capacity
- Forward Firm Daily Capacity
- Forward Firm Within-Day Capacity

which can be combined in any combination of the above.

In respect of each entry and exit point for each of the Capacity Products indicated above, the related entry and exit charges are determined through auctions run according to the provisions of the Operations Code. The Reserve Price to be used by the Transporter for these auctions is calculated by applying the coefficients shown in the Table 1 below to the entry and exit Tariffs at the relevant Location for Forward Firm Long-Term Capacity ($T_{fwd,entry,t}$ and $T_{fwd,exit,t,x}$) indicated in

Clause 4.1, and adapted according to the duration of each Capacity Product for auction in accordance with Article 4.1.10 of the Joint Opinion:

Table 1

Multiplicative coefficients of the yearly, quarterly, monthly ~~and~~, daily and within-day charges for the respective products				
Yearly	Quarterly	Monthly	Daily	Within-Day
1	1.1	1.2	1.4	1.4

4.2A Within-Day Operation Fee

For each booking of Forward Firm Within-Day Capacity successfully made by a Registered Party, that Registered Party must pay a fee in Euro to the Transporter in the following amount:

$$\overset{\text{(Add)}}{Fee} = TAP\ Reserve\ Price\ x\ \frac{Within\ Day\ Adjusted\ Capacity}{365}\ x\ 0.1$$

where TAP Reserve Price and Within-Day Adjusted Capacity (each as defined in the Network Code) are those applicable to the relevant booking of Forward Firm Within-Day Capacity.

This operation fee applicable to Forward Firm Within-Day Capacity is designed to remunerate the Transporter for additional operational costs incurred as a result of introducing and offering Forward Firm Within-Day Capacity and as such it does not form part of, and will be treated separately from, the Tariff. For the avoidance of doubt, this means that revenues from such fee will not be treated as additional revenues to be redistributed under Clause 5.2.

4.3 Forward-Day-Ahead Interruptible Capacity

The fee structure for Forward Day-Ahead Interruptible Capacity through the TAP Transportation System follows an entry-exit system, so that Shippers will pay charges in respect of each entry capacity booking and each exit capacity booking they make via the daily auctions for Forward Day-Ahead Interruptible Capacity run according to the provisions of the Operations Code in compliance with the use-it-or-lose-it requirements of Article 4.7.1 of the Joint Opinion.

The Reserve Price to be used by the Transporter for these auctions is calculated by applying the coefficient shown below to the entry and exit Tariffs at the relevant Location for Forward Firm Long-Term Capacity ($T_{fwd,entry,t}$ and $T_{fwd,exit,t,x}$) indicated in Clause 4.1:

Daily
0.7

4.4 Commercial Reverse Capacity

The fee structure for Commercial Reverse Capacity through the TAP Transportation System imposed by Article 4.4 of the Joint Opinion does not allow for entirely separate entry and exit bookings, and shippers must book Commercial Reverse Capacity as a combination of specific entry points and exit points. Nomination for these linked entry and exit capacities must be performed in the combinations booked and have to be kept separate from the nomination of all other types of capacity in the TAP Pipeline System in the combinations booked. However, Shippers will still pay charges in respect of each entry capacity booking and each exit capacity booking they make. The base capacity tariff ($T_{rev,entry,t}$ and $T_{rev,exit,t,x}$) applicable to any Capacity

Product offered as Commercial Reverse Capacity (being an interruptible product) will be 5% of the equivalent Forward Flow Capacity Product, calculated as follows.

Entry tariff (same tariff for all reverse flow entry points):

$$T_{rev,entry,t} = 5\% \cdot (50\% \cdot TR_t) \cdot \left(\frac{1}{\sum_{j=1}^{n} C_{fwd,entry,t,j}} \right)$$

Exit tariff (separate tariff for each exit point, x):

$$T_{rev,exit,t,x} = 5\% \cdot (50\% \cdot TR_t) \cdot \left(\frac{L_{rev,x}}{\sum_{j=1}^{n} \left(C_{fwd,exit,t,j} \cdot L_{fwd,j} \right)} \right)$$

where:

$T_{rev,entry,t}$ Reverse entry tariff at every entry point, in EUR/KWh/Gas Day/Gas Year

$T_{rev,exit,t,x}$ Reverse exit tariff at exit point x, in EUR/KWh/Gas Day/Gas Year

TR_t	Target Revenue for the specific tariff calculation year t, in EUR
$C_{fwd,entry,t,j}$	Total Initial Capacity Bookings and Expansion Capacity Bookings for Forward Firm Capacity for entry at each entry point, j during the specific tariff calculation year, in KWh/Gas Day.
$L_{rev,x}$	Pipeline length from westernmost entry/exit to exit point x.
$L_{fwd,j}$	Pipeline length from easternmost entry/exit point to each exit point j where forward flow exit capacity is booked for the specific tariff calculation year, in same units as $L_{rev,x}$.
j	Denotes the unique serial number indicating the entry or exit points within the TAP pipeline system. Entry/exit points are assigned unique serial numbers, 1 being assigned to the easternmost entry/exit point and n to the westernmost one.
n	Total number of entry points in the TAP Transportation System.

The following Commercial Reverse Capacity products are available in the TAP Transportation System:

- Reverse Yearly Capacity
- Reverse Quarterly Capacity
- Reverse Monthly Capacity
- Reverse Daily Capacity

which can be combined in any combination of the above.

In respect of each entry and exit point for each of the Capacity Products indicated above, the related entry and exit charges are determined through auctions run according to the provisions of the Operations Code. The Tariff to be used as the Reserve Price by the Transporter for these auctions is calculated by applying the coefficients shown in the Table 2 below to the entry and exit Tariffs at the relevant Location for Commercial Reverse Capacity ($T_{rev,entry,I}$ and $T_{rev,exit,j}$) according to the duration of each Capacity Product for auction as indicated in table 2.

Table 2:

Multiplicative coefficients of the yearly, quarterly, monthly and daily charges for the respective products			
Yearly	Quarterly	Monthly	Daily
1	1.1	1.2	1.4

4.5 Physical Reverse Capacity and other products

In accordance with the Joint Opinion, Art. 4.4.6, the Transporter will ensure that physical reverse flow for emergency operations can be provided. Physical reverse capacity is not offered as a commercial product, and hence a fee structure for such capacity is not defined. Should a need for a commercial product arise, the Tariff Code will be amended accordingly.

5 Redistribution mechanism

The Transporter's Target Revenue is expected to be provided by the performance of the long-term ship-or-pay contracts underpinning investments in the TAP Transportation System. The marketing of other available capacity can, however, be expected to generate additional revenues. As the amount of such additional revenues cannot be reliably estimated in advance, they do not contribute to the setting of the tariff level, but are instead subject to a redistribution mechanism.

5.1 Timing of redistribution

Redistribution of additional revenues shall be performed annually, after calculation by the Transporter of the amounts to be redistributed. The redistribution amount for the period January to December is evaluated in the following February (following invoices for December paid by end January), and credit notes sent out as soon as practicable (with the Monthly Statement in March). For the avoidance of doubt, shippers whose contracts have expired at the time credit notes are issued but were valid at the beginning of the redistribution period are also eligible for receiving redistributed revenues.

5.2 Determination of additional revenues to be redistributed

The additional revenues for redistribution fall into one of three categories, with separate treatment as follows:

a) any revenue from the auction premiums resulting from auction procedures under Market Tests or auctioning of Commercial Reverse Capacity products (Articles 4.3 and 4.4 of the Joint Opinion) is transferred to a special fund at the disposal of the Authorities for further redistribution in accordance with Article 4.7.10 of the Joint Opinion. The exact procedures of such mechanism will be defined by the Authorities by the date of the Transporter's commercial operation;

b) any revenue from auctions for Forward Day-Ahead Interruptible Capacity will be redistributed to the Shippers holding Forward-Firm Long-Term Capacity. The exact procedures for such redistribution will be defined in the Operations Code;

c) all other revenue in excess of the Target Revenue in the redistribution period received by the Transporter from Capacity Products will be redistributed to Shippers. For the avoidance of doubt, and to the extent allowed by applicable law in force at a given time, any revenue resulting from an auction premium under regular auctions of forward flow capacity would be included in such remaining revenue. The allocation of the amount determined to be redistributed shall be done according to the principle that the Tariff is hypothetically recalculated based on all capacity actually booked and paid for in the redistribution period, while keeping Target Revenue constant, with the excess revenue, if any, being allocated between the Shippers pro rata to the difference between the amount paid on the basis of the actual Tariff and the amount that they would have paid according to the hypothetically calculated Tariff.

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~~Table moves from~~	0
Embedded Graphics (Visio, ChemDraw, Images etc.)	1
Embedded Excel	0
Format changes	0
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