European Commission
Innovation and Networks Executive Agency (INEA)

Ms Beatrice Coda
Head of C4 Unit

Chaussée de Wavre 910
W910 01/130
B-1049 Brussels

Subject: Grant Agreement amendment request - Action 6.5.2-0015-HR-S-M-15

Dear Ms Coda,

We are addressing you concerning the Connecting Europe Facility Grant Agreement No INEA/CEF/ENER/M2015/1027646 concluded between the Innovation and Networks Executive Agency (INEA) and Plinacro Ltd. (Plinacro) on 27 November 2015. The subject of the Agreement is Action No 6.5.2-0015-HR-S-M-15, "Pre-investment phase for the project of the main LNG transit gas pipeline Zlobin-Bosiljevo-Sisak-Kozarac-Slobodnica".

The Action 6.5.2-0015-HR-S-M-15 consists of the following three activities:

1. Drawing up Feasibility study, Business plan, CBA, CBCA proposal and conducting the Market test
2. Drawing up Detailed design for sections Zlobin – Bosiljevo – Sisak – Kozarac
3. Drawing up Detailed design for section Kozarac - Slobodnica

The Activity No 1 is successfully completed, but the Activities No 2 and No 3 have not started yet. Pursuant to art II.12 of the Grant Agreement, we would like to propose to extend the duration of the Action by one year from 31/03/2018 to 31/03/2019.
Delay in the implementation of the Activities occurred due to several reasons:

1) The implementation of PCI 6.5.2 (construction of pipeline Zlobin-Bosiljevo-Sisak-Kozarac-Slobodnica) is intrinsically linked with and directly depends on the implementation of the PCI 6.5.1 (construction of LNG terminal on the island of Krk), as the gas pipeline is intended to mainly serve the purpose of evacuation and transmission of the LNG from the terminal. At the time of application for grant, the PCI 6.5.2 was planned in accordance with the dynamics of development of the LNG terminal and it envisaged gradual increase in transmission capacities over time. During 2016, however, the promoter of the LNG terminal project LNG Croatia d.o.o. decided to change the concept of the development of the terminal. That is, the fully onshore LNG terminal, in order to speed-up LNG supply in Croatia and further, was replaced by the FSRU in first stage years of operation, while the construction of the inshore terminal would follow in the later years. This decision was formally endorsed by the Government of the Republic of Croatia on 8 June 2016 (in the attachment of this letter).

As in the initial phase, the FSRU transmission capacity was expected to be lower than foreseen, the approach to develop the Zlobin-Bosiljevo-Sisak-Kozarac-Slobodnica pipeline had also to be accordingly adjusted and aligned.

As a consequence, execution of activities 2 and 3 (detailed engineering) of the Action no 6.5.2-0015-HR-S-M-15, were put on hold for the major part of 2016 until the dynamics of development of the LNG terminal was confirmed and formally approved. The delay was also aggravated by the fact that the Government of Croatia, formally responsible for endorsing the new concept of the terminal and for confirming the important strategic status of the project changed twice in the meantime.

Presently, Plinacro envisages developing PCI 6.5.2 in the following aligned with the development of the terminal phases:

- In the first phase, Omišalj-Zlobin gas pipeline section will be constructed in order to connect the existing transmission system with the LNG terminal on the island of Krk. This pipeline will allow the flow of 2,6 bcma of gas from the LNG terminal.

- In the second phase, in case there is an increased market interest, Zlobin-Bosiljevo-Sisak-Kozarac gas pipeline section will be constructed, which would enable transmission of additional quantities of gas up to 3,5 bcma from the LNG terminal in the direction of Hungary.
In the third phase, if the market shows interest in capacities exceeding 3.5 bcm, Kozarac-Slobodnica gas pipeline section will be constructed. The construction of this section, the envisaged by the PCI, gas transmission capacity 6.5 bcm will be ensured and the PCI will be fully implemented.

Linked to the above, Plinacro has also decided to reduce the Zlobin-Bosiljevo-Sisak-Kozarac pipeline diameter from DN 1000 to DN 800.

Overall, the delay of 12 months occurred in carrying out of the Action.

2) Following the conceptual change of the LNG terminal, on 17 May 2017, by the Board Decision on the Appointment of the Project Team for conducting the Binding Phase of the Open Season procedure (in the attachment), Plinacro considered rational to organise a new market test (binding OS procedure). This test will re-evaluate the results of a non-binding phase, provide certainty on the transmission capacity requirements and will allow Plinacro to decide which sections of the pipeline are to be constructed in the first place and which need to be postponed / cancelled. Since activities 2 and 3 include the drawing up of the main designs, it was decided to wait for the results of the binding OS procedure. The results should be known by the end of the first quarter of 2018. The time-schedule of the binding phase of the OS procedure is attached to this letter.

The decision to conclude the binding phase of the Open Season procedure at this stage had a significant influence on the overall delay of the Action implementation.

Furthermore, the activities 2 and 3 include as deliverables obtainment of the building permits per pipeline section. If Plinacro would have obtained building permits but had not started construction of the sections within 2 years, the building permits would have expired and would have needed to be renewed, which would imply an additional lengthy administrative procedure and would double the costs.

To conclude, the implementation of activities 2 and 3 prior to confirmation of the revised transmission capacities from the LNG terminal and prior to the results of the binding OS would have on the one hand caused additional and unreasonable costs to Plinacro, as these activities would have been done in vain, would have to be heavily revised at a later stage or repeated, and on the other it would have caused further delays.

We would like to draw your attention to that Plinacro has been continuously in touch with INEA regarding the delays. This is apparent from the Action Status Report (ASR) for the period from July 2015 to 31 December 2016, from the quarterly report provided to INEA on
29 September 2017, and the subsequent meeting held between INEA and Plinacro on 4 December 2017 in Brussels.

In the effort to reduce the occurred delay, Plinacro has already completed drawing up all the required studies and obtained all permits necessary to start drawing up the main design for the pipelines. In addition, at present, the activities 2 and 3 are envisaged to be commenced in parallel, instead of previously envisaged by Plinacro sequential approach. Furthermore, the Binding phase of the Open Season schedule is planned having in mind the shortest possible time limits and in full cooperation with the LNG terminal promoter, LNG Croatia d.o.o. and the Hungarian TSO, FGSZ.

The proposed changes do not imply changes in the overall objective of the Action, specified in Annex I of the Grant Agreement, art I.3, paragraph 4. In order to mitigate any further delays, Plinacro performed main risks assessment and envisaged adequate measures to address these risks. The risk assessment is included among the attachments to this letter.

We trust you will find the request for extension of duration of the Action sufficiently justified and we are at your disposal to provide further clarifications if necessary.

Please find attached:
1. Updated Risk Assessment for the Activities 2 and 3
2. Decision of Croatian Government to approve the new concept of LNG terminal
3. Draft Annex I and Annex III of the GA with track changes
4. The time schedule of the Binding phase of the Open Season
5. Board Decision on the Appointment of the Project Team for conducting the Binding Phase of the Open Season procedure

In case you have any additional questions please do not hesitate to contact us.

Kind regards,
UPRAVA DRUŠTVA
Broj: UP- 143/2017


ODLUKA

I.

Imenuje se tim za provedbu postupka utvrđivanja interesa korisnika za zakup novih kapaciteta transportnog sustava (Open Season), kako slijedi:

1. voditelj tima,
2. zamjenik voditelja tima,
3. 
4. 
5. 
6. 
7. 

II.

Zadužuje se voditelj tima za koordinaciju aktivnosti prema društvu LNG Hrvatska d.o.o. u provedbi postupka utvrđivanja interesa korisnika za zakup kapaciteta terminala za uplinjavanje prirodnog plina na otoku Krku.

Dostavljeno.

1. 

[Signature]
COMPANY BOARD
No: UP- 143/2017
Based on the article 14 of the Statement of Incorporation of PLINACRO d.o.o., the Company Board at the session held on 17.5.2017 hereby issues a

DECISION

I

The Team for the implementation of the procedure of determining interest of users for new transmission system capacities booking (Open season) is appointed as follows:

1.

II

The team leader is entrusted with the coordination of activities towards the LNG Croatia company in the implementation of the procedure of determining interest of users for booking the capacity of the terminal for gasification of the natural gas on the island of Krk.

To be delivered to:
1. The appointed persons
2. Records, here
VLADA REPUBLIKE HRVATSKE

Klasa: 022-03/16-07/223
Urbroj: 50301-05/05-16-3
Zagreb, 8. lipnja 2016.

MINISTARSTVO GOSPODARSTVA

LNG HRVATSKA d.o.o.
n/r direktoru

Predmet: Potpora izgradnji prve faze projekta LNG terminal – izgradnja plutajućeg terminala za skladištenje i uplinjavanje ukapljenog prirodnog plina na otoku Krku

U prilogu se dostavlja predmetni Zaključak, koji je Vlada Republike Hrvatske donijela na sjednici održanoj 8. lipnja 2016. godine.

Prilog: 1
VLADA REPUBLIKE HRVATSKE

Na temelju članka 31. stavka 3. Zakona o Vladi Republike Hrvatske (Narodne novine, br. 150/11 i 119/14), Vlada Republike Hrvatske je na sjednici održanoj 8. lipnja 2016. godine donijela

ZAKLJUČAK

1. Projekt pod nazivom LNG terminal (izgradnja prihvatnog terminala za ukapljeni prirodni plin na otoku Krku) koji je Odlukom o proglašenju projekta LNG terminal (izgradnja prihvatnog terminala za ukapljeni prirodni plin na otoku Krku) strateškim investicijskim projektom Republike Hrvatske (Narodne novine, broj 78/15) proglašen strateškim investicijskim projektom od važnosti za Republiku Hrvatsku, važan je čimbenik u diversifikaciji opskrbe prirodnim plinom, kao i u povećavanju sigurnosti opskrbe prirodnim plinom za zemlje jugoistočne Europe što je potvrđeno uvršavanjem ovoga projekta u Strategiju skladištenja ukapljenog prirodnog plina koju je Europska komisija objavila u veljači 2016. godine.

2. Sukladno razradi projekta koji predviđa faznu gradnju terminala, a zbog ubrzavanja procesa izgradnje terminala i osiguravanja novog dobavnog pravca prirodnog plina za jugoistočnu Europu, Vlada Republike Hrvatske zadužuje sve dionike uključene u proces pripreme i provedbe projekta LNG terminala na otoku Krku, a posebice društvo LNG Hrvatska d.o.o. da ubrzaju pripremu i provedbu prve faze projekta koja obuhvaća izgradnju plutajućeg terminala za skladištenje i uplinjavanje ukapljenog prirodnog plina.

3. Zadužuju se Ministarstvo gospodarstva, Ministarstvo vanjskih i europskih poslova, Ministarstvo financija, Ministarstvo zaštite okoliša i prirode, Ministarstvo pomorstva prometa i infrastrukture i Ministarstvo graditeljstva i prostornoga uređenja da se uključe u ubrzavanje procesa pripreme i provedbe ovoga projekta sukladno nadležnostima koje imaju.

4. Ubrzanje procesa pripreme i provedbe prve faze projekta ne isključuje provedbu ostalih planiranih faza ukoliko se pokaže da su one ekonomski isplative.


Klasa: 022-03/16-07/223
Ubroj: 50301-05/05/16-2
Zagreb, 8. lipnja 2016.
GOVERNMENT OF THE REPUBLIC
OF CROATIA

Class: 022-03/16-07/223
Reg. No: 50301-05/05-16-3
Zagreb, 8, June 2016.

MINISTRY OF ECONOMY
LNG CROATIA LLC
Managing director

Subject: Support to the construction of the first phase of the LNG terminal Krk project – construction of the floating terminal for storing and regasification of liquefied natural gas on the island of Krk -Decree of the Government

The Decree is delivered in the Annex, which the Government of the Republic of Croatia has made at its session on 8th of June, 2016.

Annex: 1

Deputy of Secretary General
GOVERNMENT OF THE REPUBLIC
OF CROATIA

Pursuant to article 31, paragraph 3 of the Act on the Government of the Republic of Croatia ("Official Gazette", no. 150/11 and 119/14), the Government of the Republic of Croatia, at its session on 8th of June, 2016, adopted the following

DECREE

1. Project under title LNG terminal (construction of the receiving terminal for liquefied natural gas on the island of Krk) that was declared a project of strategic investment importance for the Republic of Croatia, by the Decision on declaring the project of strategic investment importance for the Republic of Croatia (construction of the receiving terminal for liquefied natural gas on the island of Krk - "Official Gazette", no 78/15) is an important factor in the diversification of natural gas supply as well as enhancement of security of natural gas supply for the countries of Southeast Europe, which has been confirmed by inclusion of this project in the Strategy for liquefied natural gas storage issued by European Commission in February 2016.

2. In compliance with the project development that envisages phase construction of the terminal and due to speeding up the process of terminal construction and providing a new natural gas supply route for Southeast Europe the Government has obliged all stakeholders involved in the process of preparation and implementation of LNG terminal project on the island of Krk and primarily Company LNG Croatia LLC to speed up the preparation and implementation of the first phase of the project which includes construction of the floating terminal for storing and regasification of natural liquefied gas.

3. Ministry of Economy, Ministry of Foreign and European Affairs, Ministry of Finance, Ministry of Environmental and Nature Protection, Ministry of Maritime Affairs, Transport and Infrastructure and Ministry of Construction and Physical Planning have been instructed to participate in speeding up the process of preparation and implementation of the project in compliance with their jurisdictions.

4. Speeding up the process of preparation and implementation of the first project phase does not exclude implementation of other anticipated phases if they prove to be economically viable.

5. Ministry of Economy has been instructed to inform entities stated in clause 3 hereof about this Decree.

Class: 022-03/16-07/223
Reg. No: 50301-05/05-16-2
Zagreb, 8, June 2016

PRESIDENT
ANNEX I
DESCRIPTION OF THE ACTION

ARTICLE 1.1 – IMPLEMENTATION OF THE TEN-E NETWORK

The action contributes to the implementation of the following project of common interest¹:
6.5.2 Gas pipeline Zlobin – Bosiljevo – Sisak – Kozarac – Slobodnica (HR)

ARTICLE 1.2 – LOCATION OF THE ACTION

1.2.1 Member State(s): Croatia

1.2.2 Region(s) (using the NUTS2 nomenclature): Kontinentalna Hrvatska (HR04), Jadranska Hrvatska (HR03)

1.2.3 Third country(ies): not applicable

ARTICLE 1.3 – SCOPE AND OBJECTIVES OF THE ACTION

The Action contributes to the project of common interest (PCI) 6.5.2, which concerns the construction of a new gas pipeline and upgrade of existing line on the Zlobin – Bosiljevo – Sisak – Kozarac – Slobodnica pipeline located in Croatia. The total estimated length of the pipeline is 308 km and it is comprised of four sections with the technical parameters described in Article 1.4.2 below.

The Action is part of the development of the cluster of PCIs dedicated to the development of LNG transit and distribution system in Croatia (PCI cluster 6.5), where the Zlobin – Bosiljevo – Sisak – Kozarac – Slobodnica pipeline represents the main evacuation route for the regasified LNG from the terminal on the Krk island (PCI 6.5.1) to a number of countries in central-eastern and south-eastern Europe, in particular to Hungary and Ukraine. Therefore, the realisation of the pipeline is intrinsically linked to the design and the implementation of the Krk LNG terminal.

The current Action covers the following package of activities needed to complete the pre-investment stage of the pipeline: feasibility study, market test, Cost-Benefit Analysis (CBA), development of business plan, preparation of documents for the Cross-Border Cost Allocation (CBCA) decision and the detailed design of the pipeline carry-out section by section taking into account the section-specific technical parameters.

The overall objective of the Action is to analyse economic, financial and technical aspects for the Zlobin – Bosiljevo – Sisak – Kozarac – Slobodnica pipeline. The key deliverables of the Action, namely feasibility study report, market test report, CBA report, CBCA decision, detailed designs and building permits, obtained per section, will allow to start the construction of the Zlobin – Bosiljevo – Sisak – Kozarac – Slobodnica gas pipeline.

¹ As specified in Commission Delegated Regulation (EU) No 1391/2013 of 14 October 2013 amending Regulation (EU) No 347/2013 as regards the Union list of projects of common interest
ARTICLE I.4 – ACTIVITIES

I.4.1 Activities timetable

<table>
<thead>
<tr>
<th>Activity number</th>
<th>Activity title</th>
<th>Indicative start date</th>
<th>Indicative end date</th>
<th>Milestone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Drawing up feasibility study, business plan, CBA, CBCA proposal and conducting the market test</td>
<td></td>
<td></td>
<td>1, 2, 3, 5</td>
</tr>
<tr>
<td>2</td>
<td>Drawing up detailed design for sections Zlobin - Bosiljevo - Sisak - Kozarac</td>
<td></td>
<td></td>
<td>4, 6, 7</td>
</tr>
<tr>
<td>3</td>
<td>Drawing up detailed design for the section Kozarac - Slobodnica</td>
<td></td>
<td></td>
<td>8, 9, 10</td>
</tr>
</tbody>
</table>

I.4.2 Activities description

**Activity 1:** Drawing up feasibility study, business plan, CBA, CBCA proposal and conducting the market test

The activity starts with the procurement procedure. The preparation for the tender documentation and the development of the procurement will be performed by the beneficiary in compliance with the valid national regulations on public procurement. One inclusive contract will be signed with the selected consultant.

The activity entails the preparation of the feasibility study, development of the business plan, the CBA, preparation of a request for a cross-border-cost-allocation decision and performance of the market test that is fully aligned with the screening of the prospective market for the Krk LNG terminal. The feasibility study will provide essential data on the potential demand for gas transition / delivery in the region, it will determine the technical characteristics of the eventual pipeline and it will define the financial, economic as well as the legal and regulatory context for the PCI 6.5.2. The business plan will provide a description of the PCI implementation timeframe, identify key stakeholders and examine profitability and risks. The market test will deliver results of the possible load factor and an estimation of the commercial interest; it will also feed the data for the development of the CAPEX and OPEX estimates. The Cost-Benefit Analysis, performed in line with the ENTSO methodology, will include comprehensive financial, social and economic assessment of the PCI, the long-term sustainability of the project and the quantitative and qualitative estimation of its impact. The proposal for the CBCA decision will define the cross-border allocation of costs among the Member States concerned by the common interest project and it will, in pursuit of a fair distribution of the costs and benefits of the project, include compensation mechanism to the constructing party, i.e. Plinacro, from other benefitting parties.

**Activity 2:** Drawing up detailed design for sections Zlobin – Bosiljevo – Sisak – Kozarac
The activity covers the development of detailed design for three new sections of the pipeline, namely, the Zlobin - Bosiljevo, the Bosiljevo - Sisak and the Sisak - Kozarac sections, and it entails the procurement procedure. The preparation for the tender documentation and the development of the procurement will be performed by the beneficiary in compliance with the valid national regulations on public procurement. Separate contracts will be signed for each section.

The activity covers, the mechanical part, civil engineering part, electrical design, definition of the detailed equipment specifications, etc. All sections will be of DN 1000/800, of maximum operating pressure 100 bar and of a transmission capacity of 10 bcm/y. Between Zlobin and Bosiljevo, it is planned to construct a pipe of an approximate total length of 58 km, between Bosiljevo and Sisak the section will stretch along the length of approximately 101 km and the section between Sisak and Kozarac will have an approximate length of 21 km. The two last sections will be adjoined with the respective metering-reduction stations.

The detailed design will be made on the basis of the location permits issued per section and will include measures envisaged for the protection of the environment. The preparation of the detailed design will provide the technical basis necessary to determine functional, technical and design characteristics of the three sections of the gas pipeline. It will also deliver the specifications for equipment and materials necessary for the construction works.

The completion of the detailed design will allow Plinacro to obtain the building permit for the sections Zlobin – Bosiljevo – Sisak – Kozarac.

Activity 3: Drawing up detailed design for the section Kozarac - Slobodnica

The activity starts with the procurement procedure for this fourth section of the pipeline. The preparation for the tender documentation and the development of the procurement will be performed by the beneficiary in compliance with the valid national regulations on public procurement.

The activity entails inter alia the mechanical part, civil engineering part, electrical design and definition of the detailed equipment specifications. The development of the Kozarac – Slobodnica section does not follow the dynamics of the first three sections. On this part there is already a DN 600 / 75 bar pipeline connecting Kozarac and Slobodnica that stretches over 128 km and has a transmission capacity of 4.5 bcm/y, which will suffice in the initial stage of operation of the LNG terminal. However, with the expected increase in gas transit due to potential growth in market demand, off-shore production in Croatia and gas import from south-eastern Europe, the section will be upgraded. A parallel pipeline of DN 800, 6.5 bcm/y transmission capacity and a maximum operating pressure of 75 bar will be constructed, bringing transmission capacity to a total approximate value of 11 bcm/y.

The detailed design of this parallel section will be made on the basis of the location permit and will include measures envisaged for the protection of the environment. The preparation of the detailed design will provide the technical basis necessary to determine functional, technical and design characteristics of the Kozarac - Slobodnica section.
The completion of the detailed design will allow Plinacro to obtain the building permit for the Kozarac - Slobodnica section.

**ARTICLE 1.5 – MILESTONES AND MEANS OF VERIFICATION**

<table>
<thead>
<tr>
<th>Milestone number</th>
<th>Milestone description</th>
<th>Indicative completion date</th>
<th>Means of verification</th>
</tr>
</thead>
</table>
ANNEX III
ESTIMATED BUDGET OF THE ACTION

Table 1: Planned sources of financing of the eligible costs of the action

<table>
<thead>
<tr>
<th>Financing sources</th>
<th>Amount of financial contribution to the action eligible costs (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CEF-Energy financing</td>
<td>2,250,000</td>
</tr>
<tr>
<td>2. Beneficiary’s own resources</td>
<td>2,250,000</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>(a) CBCA contribution</td>
<td>0</td>
</tr>
<tr>
<td>(b) EIB loan</td>
<td>0</td>
</tr>
<tr>
<td>3. State budget(s)</td>
<td>0</td>
</tr>
<tr>
<td>4. Regional/ local budget(s)</td>
<td>0</td>
</tr>
<tr>
<td>5. Income generated by the action</td>
<td>0</td>
</tr>
<tr>
<td>6. Other sources</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>4,500,000</strong></td>
</tr>
</tbody>
</table>
Table 2: Indicative breakdown per activity of estimated eligible costs of the action by activity (EUR)

<table>
<thead>
<tr>
<th>Activities</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible direct costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>