

INFORMATION RELATED THE FOLLOWING PARAMETERS: TYPES OF ASSETS, COST OF CAPITAL, CAPITAL AND OPERATIONAL EXPENDITURES, INCENTIVE MECHANISMS AND EFFICIENCY TARGETS, INFLATION INDICES

1. TYPES OF ASSETS INCLUDED IN THE REGULATED ASSET BASE AND THEIR AGGREGATED VALUE, ART. 30 (1) (B) (III) (1)

In accordance with guidelines issued by the President of the Energy Regulatory Office (hence ERO) the regulated asset base is calculated as follows:

$$M2018 = M2016 + \frac{1}{2} * (I2017 + I2018) - \frac{1}{2} * (A2017 + A2018)$$

where:

M2018 – fixed assets as planned for 31 December 2018,

M2016 – fixed assets as at 31 December 2016,

I2018 – planned net value of the investment costs as per the Company's Investment Plan for 2018

I2017 – planned net value of the investment cost as per the Development Plan for 2017,

A2017 – planned depreciation for year 2017,

A2018 – depreciation planned for 2018, as per Company's budget for year 2018,

The regulated asset base for the tariff year 2018 equals to **PLN 6,974,999 thousand**.

2. COST OF CAPITAL AND ITS CALCULATION METHODOLOGY, ARTICLE 30 (1) (B) (III) (2)

The rate of return is being calculated under the formula:

$$ZNK = WACC * (WRA + WC)$$

where:

ZNK – return on capital employed,

WACC – weighted average cost of capital,

WRA – net value of the regulated asset base, calculated under the formula recommended by the President of ERO,

WC – working capital (planned average in the accounting year)

The weighted average cost of capital was determined based on the formula below, recommended by the President of Energy Regulatory Office in the document entitled: *Metoda określania wskaźnika kosztu zaangażowanego kapitału na lata 2016-2018 dla infrastrukturalnych przedsiębiorstw sektora gazowego* (The methodology of setting the weighted average cost of capital for 2016 – 2018 for infrastructural enterprises in gas sector).

$$WACC_{pre-tax} = (r_f + DP) * \frac{D}{D + E} + \frac{(r_f + \beta_e * ERP)}{(1 - T_N)} * \frac{E}{D + E}$$

where:

WACC pre-tax – weighted average cost of capital, pre-tax,

rf – risk-free rate – 3.256%,

DP – premium for the risk of providing external (debt) financing – 1%,

D – external (debt) financing – 30%,

E – equity – 70%,

ERP – equity risk premium – 4.50%,

β_e , – risk of the capital involved – 0.5389,

TN – nominal tax rate – 19%.

The WACC calculation follows the capital structure determined by the ERO President for 2018 at 70% (equity) to 30% (debt).

The cost of equity was estimated in accordance with the following formula:

$$K_e = \frac{(r_f + \beta_e * ERP)}{(1 - T_N)}$$

where:

Ke – cost of equity pre-tax (including tax shield)

WACC calculated in accordance with the above formula equals to **6.19%**

The below table sets out the amount of the return on capital employed included in the reference price calculation within the Tariff for 2018.

Return on capital employed calculated according to the formula	thous. PLN	431,486
Adjustments made during the tariff process	thous. PLN	204,549
Adjusted return on capital employed	thous. PLN	226,937

3. CAPITAL EXPENDITURES, ARTICLE 30 (1) (B) (III) (3)

Investments planned for tariff year 2018 are **PLN 2,168,500 thousand**.

4. METHODOLOGIES TO DETERMINE THE INITIAL VALUE OF ASSETS, ARTICLE 30 (1) (B) (III) (3) (A)

The initial value of fixed assets depending on the method of acquisition is determined as follows:

- for a purchased fixed asset – the initial value is the purchase price, i.e. the actual purchase price including the seller's due (excl. VAT), and if imported: plus non-refundable charges

of public-law nature, and plus costs directly relating to the purchase and adaptation of the fixed asset to reach usable condition,

- for a fixed asset received as a non-financial contribution, the initial value is the fair value determined by an independent appraiser.

The initial value of fixed assets will be increased by expenditures for improvements consisting in overhaul, expansion, modernization or reconstruction and causing the useful value of such a fixed asset to exceed the fair value it has when accepted for use, measured using the duration of use, production capacity, quality of products obtained using the improved fixed asset, exploitation costs or other measures.

5. METHODOLOGIES TO RE-EVALUATE THE ASSETS, ARTICLE (30) (1) (B) (III) (3) (B)

Not applicable. GAZ-SYSTEM has not re-evaluated the assets so far.

6. EXPLANATIONS OF THE EVOLUTION OF THE VALUE OF THE ASSETS, ARTICLE 30 (1) (B) (III) (3) (C)

Evolution of the value of the assets p.a. arises from depreciation and amortization write-offs and permanent loss of value, as well as liquidation, and increases arise from new fixed assets commissioned in the reporting year.

7. DEPRECIATION PERIODS AND AMOUNTS PER ASSET TYPE, ARTICLE 30 (1) (B) (III) (3) (D)

All fixed assets and intangible and legal assets owned by the Capital follow the line method of depreciation and amortization respectively. Rates used in the various groups of fixed assets are as follows. Depreciation and amortization value as at 31 December 2016 comes from the audited financial statement.

Goup name	Depreciation and amortization for 2016 [thous. PLN]	OEU [Years]	OEU [%]
group 0 Land	2,124	up to 20 years	no less than 5% (perpetual usufruct),
group II Buildings	238,994	5-40	2.5-20 %,
group II Structures		2-40	2.5-50%,
group III Boilers and power machines	98,043	3-15	6.7-33.3%
group IV General machines		2-25	4-50%
group V Specialist machines		5-20	5-20%
group VI Technical devices		2-20	5-50%,
group VII Means of transport	9,915	3-10	10-33.3%
group VIII Equipment	12,671	2-5	20-50%
Intangible and legal assets	12,682	2-5	20-50%

8. OPERATIONAL EXPENDITURES, ARTICLE 30 (1) (B) (III) (4)

Operational expenditures accounted for in the calculation of tariff rates for 2018 are **PLN thousand 1,036,936**.

9. INCENTIVE MECHANISMS AND EFFICIENCY TARGETS, ARTICLE 30 (1) (B) (III) (5)

Not applicable. GAZ-SYSTEM uses no incentive mechanisms.

10. INFLATION INDEX, ARTICLE 30 (1) (B) (III) (6)

Not applicable. The tariff year is equal to the regulatory period, hence inflation indices are not used.