

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:

$$\mathbf{M2019 = M2017 + \frac{1}{2} * E * (I2018 + I2019) - \frac{1}{2} * (A2018 + A2019)}$$

where:

M2019 – fixed assets as planned for 31 December 2019,

M2017 – fixed assets as at 31 December 2017,

E – rate of realization of planned net value of the investment costs in years 2015 - 2017,

I2018 – planned net value of the investment cost as per the Development Plan for 2018,

I2019 – planned net value of the investment costs as per the Company's Investment Plan for 2019,

A2018 – planned depreciation for year 2018,

A2019 – depreciation planned for 2019.

The regulated asset base for the tariff year 2019, estimated on the basis of the above formula, equals to **PLN 6,277,184 thousand**.

GAZ-SYSTEM adjusted the regulated assets base of the assets financed from EU funds, which amounts to PLN 1,790,068 thousand, finally assuming the regulated assets base to **PLN 4,487,116 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:

$$\mathbf{ZNK = WACC * WRA}$$

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.

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 – 3.308%,

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 2019 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 **6.25%**.

The below table sets out the amount of the return on capital employed included in the reference price calculation within the Tariff for 2019.

Return on capital employed calculated according to the formula	thous.PLN	280,298
Adjustments made during the tariff process	thous.PLN	0
Adjusted return on capital employed	thous.PLN	280,298

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

Investments planned for tariff year 2019 are **PLN 1,774,600 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.

Due to the obligation to periodically verify the economic life of fixed assets (hereinafter: OEU), which results directly from the provisions of the Accounting Act, on 21st of September 2017 the Management Board of GAZ-SYSTEM approved the updating of the "Company's Accounting Policy" introducing a change regarding adjustments of OEU with effect from the financial year 2018.

The below table presents rates used in the various groups of fixed assets, the planned depreciation and amortization value as at 31 December 2018.

Group name	Planned depreciation and amortization for 2018 [thous. PLN]	OEU [Years]	OEU [%]
group 0 Land	715	up to 99 years	no less than 1%
group I Buildings	5,502	15 - 60	2 - 7 %
group II Structures	137,651	7 - 60	2 - 14 %
group III Boilers and power machines	2,437	7 - 50	2 - 14 %
group IV General machines	31,786	1 - 30	3 - 100 %
group V Specialist machines	784	5 - 15	7 - 20 %
group VI Technical devices	52,639	5 - 50	2 - 20 %
group VII Means of transport	10,785	5 - 14	7 - 20 %
group VIII Equipment	5,020	5 - 55	2 - 20 %
Intangible and legal assets	16,135	4 - 50	2 - 25 %

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

Operational expenditures accounted for in the calculation of tariff rates for 2019 are **PLN 1,022,061 thousand**.

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

Not applicable.

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.