

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:

$$M_{2021} = M_{2019} + \frac{1}{2} * E * (I_{2020} + I_{2021}) - \frac{1}{2} * (A_{2020} + A_{2021}) - M_{UE}$$

where:

M_{2021} – fixed assets as planned for 31 December 2021,

M_{2019} – fixed assets as at 31 December 2019,

E – rate of realization of planned net value of the investment costs, in year 2021 $E=100\%$,

I_{2020} – planned net value of the investment cost as per the Development Plan for 2020,

I_{2021} – planned net value of the investment costs as per the Development Plan for 2021,

A_{2020} – planned depreciation for year 2020,

A_{2021} – planned depreciation planned for 2021.

M_{UE} – value of fixed assets and intangible assets financed from non-returnable European Union Funds

The regulated asset base for the tariff year 2021, estimated on the basis of the above formula, equals to **PLN 9,015,610 thousand**.

GAZ-SYSTEM adjusted the regulated assets base of the assets financed from EU funds, which amounts to PLN 1,866,024 thousand, finally assuming the regulated assets base to **PLN 7,149,586 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:

$$ZNK = WACC * WRA$$

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 2019 - 2023 dla infrastrukturalnych przedsiębiorstw sektora gazowego* (The methodology of setting the weighted average cost of capital for 2019 - 2023 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,

r_f – risk-free rate – 2.989%,

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

D – external (debt) financing – 42%,

E – equity – 58%,

ERP – equity risk premium – 4.50%,

β_e – risk of the capital involved – 0.635,

T_N – nominal tax rate – 19%.

The WACC calculation follows the capital structure determined by the ERO President for 2021 at 58% (equity) to 42% (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:

K_e – cost of equity pre-tax (including tax shield).

WACC calculated in accordance with the above formula equals to **5.86%**.

Return on capital employed calculated according to the formula **PLN 419,004 thousand**.

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

Investments planned for tariff year 2021 are **PLN 3,378,000 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.

The below table presents rates used in the various groups of fixed assets, the planned depreciation and amortization value as at 31 December 2021.

Group name	Planned depreciation and amortization for 2021 [thous. PLN]	OEU [Years]	OEU [%]
group 0 Land	802,771	up to 99 years	no less than 1%
group I Buildings	8,743,533	15 - 60	2 - 7 %
group II Structures	177,133,609	7 - 60	2 - 14 %
group III Boilers and power machines	2,610,277	7 - 50	2 - 14 %
group IV General machines	35,978,292	1 - 30	3 - 100 %
group V Specialist machines	997,357	5 - 15	7 - 20 %
group VI Technical devices	56,975,881	5 - 50	2 - 20 %
group VII Means of transport	7,134,373	5 - 14	7 - 20 %
group VIII Equipment	6,261,710	5 - 55	2 - 20 %
Intangible and legal assets	21,707,010	4 - 50	2 - 25 %

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

Operating costs (without depreciation) included in the calculation of tariff rates for 2020 are PLN 1,035,595 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.