

Polish Oil and Gas Company (PGNiG SA)
Head Office

Warsaw, October 27th 2016

Current Report No. 99/2016

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Agreement on the conditions for further implementation of the 'Construction of a CCGT Unit in Stalowa Wola' project

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Further to Current Reports No. 34/2011 and 35/2011 dated March 11th 2011, concerning execution of significant agreements as part of the 'Construction of a CCGT Unit in Stalowa Wola' project (the "Project"), the Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") reports that, on October 27th 2016, the following conditional documents were signed:

- a) agreement concerning determination of key preconditions for the Project restructuring, between PGNiG, TAURON Polska Energia SA ("TAURON") and Elektrociepłownia Stalowa Wola S.A. ("ECSW") (the "Agreement");
- b) annex to the power purchase agreement of March 11th 2011 (the "Power Purchase Agreement") between PGNiG, TAURON and ECSW;
- c) annex to the gas fuel supply agreement of March 11th 2011 (the "Gas Supply Agreement") between PGNiG and ECSW.

Agreement

First of all, the Agreement sets forth the rules of settlement of contractual penalties that may be imposed by PGNiG on the basis of the Gas Supply Agreement as it currently stands, and addresses the issues related to financial restructuring of the Project. Furthermore, it defines the direction of changes that must be made in ECSW's key trading transactions, i.e. in the method of purchase of gas fuel and sale of the generated electricity, which are to be introduced on the basis of the annexes to the Gas Supply Agreement and the Power Purchase Agreement.

The Agreement reflects the intent of the Project sponsors (PGNiG, TAURON) (the "Sponsors") to go ahead with the construction of the CCGT unit, amend the Gas Supply Agreement and the Power Purchase Agreement and change the method of funding the Project from project finance to corporate finance, with continuing involvement of the financing institutions.

Power Purchase Agreement and Gas Supply Agreement

In particular, the conditional amendments to the Gas Supply Agreement and the Power Purchase Agreement provide for such modification of the pricing formulas used under these agreements to ensure the prices reflect market rates.

Furthermore, in view of delays in the Project implementation, the annex to the Gas Supply Agreement provides for changes to the amounts, times and methodologies of charging contractual penalties.

Conditions precedent

The Agreement and the annexes to the Gas Supply Agreement and the Power Purchase Agreement enter into force concurrently, upon the amendment of the currently applicable Project financing agreements, or upon the final discharge of liabilities towards the last of the institutions currently financing ECSW (i.e. the European Investment Bank ("EIB"), the European Bank for Reconstruction and Development ("EBRD"), and Bank Polska Kasa Opieki S.A. ("Pekao").

The Standstill Agreement

At the same time, PGNiG reports that PGNiG, TAURON, EIB, EBRD, Pekao and ECSW entered into a Standstill Agreement, the purpose of which is to ensure that the institutions currently providing financing to ECSW would refrain from calling the loans granted to ECSW immediately due and payable, and from satisfying their claims from the security provided in respect of these loans.

The Standstill Agreement remains in force until March 31st 2017. It is assumed that new documentation to restructure the Project financing may be negotiated and signed by that date.

The entry into force of the Standstill Agreement is conditional, in particular, on the financial institutions being provided with bank guarantees up to the amount of about PLN 629m until October 30th, 2016 (each of the Sponsors to provide the financial institutions with bank guarantees for half that amount (i.e. about PLN 314.5m)).

Notwithstanding the foregoing, ECSW will have the right to give notice to the financial institutions of voluntary early repayment of the loans by March 20th 2017.

According to preliminary estimates, the newly signed documents should enable completion of the Project in 2019.