FOR AGREEMENT OF 16 OCTOBER 2012 SIGNED WITH THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ACTING AS A TRUSTEE OF CARBON FUND FOR EUROPE (WINDOW 2)

For 2012, as of 31 December 2012

National Fund for Environmental Protection and Water Management
National Operator of the Green Investment Scheme
Climate Protection Department
Green Investment Scheme Unit
# Table of Contents

1. Summary ................................................................................................................................. 3
1.1. Background ............................................................................................................................. 3
1.2. Summary of the obligations arising from Assigned Amount Unit Purchase Agreements (AAU) ........................................................................................................... 3
1.3. Call for proposals ..................................................................................................................... 4
1.4. Financial performance of Projects ............................................................................................. 4
1.5. Environmental effect ................................................................................................................ 4
2. Performance of the call for proposals ............................................................................................ 4
3. Description of the Projects that received co-financing from the funds of the Climate Account ...................................................................................................................... 5
4. Financial performance of Projects .................................................................................................. 6
4.1 Cost of the projects .................................................................................................................... 6
4.2. Transfer of Proceeds from the sale of AAUs to Beneficiaries .................................................... 6
4.3. Funds returned, unused or used contrary to the terms of co-financing agreements .................. 6
4.4. Use of proceeds for administrative purposes ............................................................................. 6
5. Greening Effects ......................................................................................................................... 6
5.2. Achieved Greening Effect ....................................................................................................... 6
6. Compliance with environmental requirements ............................................................................... 7
7. Main Activities of the National Operator ..................................................................................... 7
GIS implementation issues addressed by the Operator ...................................................................... 7
1. Summary

1.1. Background

The Agreement with the International Bank for Reconstruction and Development acting as the trustee of Carbon Fund for Europe (Window 2) (hereinafter "the Agreement") was signed on 16.11.2012. The commercial value of this agreement is EUR 1,000,000. On 12 December 2012 the Climate Account, owned by the National Fund for Environmental Protection and Water Management acting as the National Operator of the Green Investment Scheme, was credited with the amount equivalent to the commercial value, which after currency conversion amounted to PLN 4,075,000.

1.2. Summary of the obligations arising from Assigned Amount Unit Purchase Agreements (AAU)

In the implementation of obligations under the Agreement, the National Fund for Environmental Protection and Water Management (NFEPWM/the National Fund) will guarantee that minimum 95% of the Proceeds will be disbursed for the purpose of Greening Projects (Projects), especially for the energy management in public utility buildings in Poland.

Up to 5% of the proceeds (PLN 203,750.00) can be assigned to cover the costs of implementing the Green Investment Scheme, including:

a) Technical assistance for eligible Beneficiaries in preparation and development of Greening Projects.

b) Marketing and promotion of Greening Programmes;

c) Management, implementation and administration of the Greening Plan and Greening Projects by the Seller or the Operator of the Green Investment Scheme;

d) Monitoring, verification, supervision, reporting and audits, including external auditors and reviewers.

Greening Programme includes implementation of activities of energy management in public utility buildings, such as saving heat and electricity in buildings intended for modernisation. Energy management in public utility buildings includes the exchange of technical infrastructure of the building for devices with the highest standard of efficiency, what is connected directly to the conducted thermal modernisation of these buildings.

The Agreement specifies the following deadlines for performance of commitments:

- announcement of calls for proposals - not later than 60 working days from the date of signing the Agreement,

- disbursing 25% of the Proceeds – by 31.12.2013;

- period of project implementation and spending 100% of the Proceeds – until 31.12.2015;

- Period of monitoring of Projects – until 31.21.2017. The revised Final Report should be submitted to the Buyer within one hundred eighty (180) calendar days after the end of the monitoring period.
1.3. Call for proposals

The selection of applications for co-financing took place under competition procedure. Under the terms of the Agreement the call for proposals should be announced within 60 days after signing the Agreement. However, due to the large number of projects that were received and positively evaluated in the calls published by the National Fund prior to the signing of the Agreement and which met the conditions set out in the Agreement, there was no reason to announce the next call for proposals.

By the end of 2012 there was not taken any decision on the selection of projects for co-financing from the Agreement funds. Works on the allocation of 1 project from the third call for proposal and 4 projects in the fourth call for proposals within the GIS priority programme “Energy management in public utility buildings” have been launched. The following Table 1 shows the information on the announced calls for proposals and initial allocation of projects.

<table>
<thead>
<tr>
<th></th>
<th>1st call for proposals</th>
<th>4th call for proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Announcement date</td>
<td>06.06.2011</td>
<td>26.04.2012</td>
</tr>
<tr>
<td>Date of submission of proposals</td>
<td>22.06.2011-21.07.2011</td>
<td>18.05.2012-31.05.2012</td>
</tr>
<tr>
<td>Number of received proposals</td>
<td>232</td>
<td>99</td>
</tr>
<tr>
<td>Number of projects selected for co-financing under the Agreement</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

1st and 2nd call for proposals do not concern Proceeds from the Agreement

1.4. Financial performance of Projects

In view of the fact that during this period there was no decision on the allocation of projects to be financed under the Agreement, it is not possible to provide more detailed information on their financial performance. Detailed information will be presented in the Greening Performance Report for the next Reporting Period.

1.5. Environmental effect

Under the terms of the Agreement, the Greening Effect of the Implemented Projects should not exceed the level of 1:70 for each Greening Project and for the entire Greening Programme.

In view of the fact that during this period there was no decision on the allocation of projects to be financed under the Agreement, it is not possible to provide more detailed information on their planned Greening Effect. Detailed information will be presented in Greening Performance Report for the next Reporting Period.

2. Performance of the call for proposals

Projects that were pre-selected for being co-financed from the Proceeds of the Agreement were identified in the third and fourth call for proposals for the priority programme “Green Investment Scheme (GIS) Part 1 – Energy management in public utility buildings.”
Third call for proposals

The third call for proposals was announced on 06.06.2011 by the National Fund under the priority programme "Green Investment Scheme (GIS) Part 1 – Energy management in public buildings, which was originally dedicated to the Buyer. However, the call for proposals was conducted in accordance with the procedures laid down in the Act of 17.07.2009 on the management system for emissions of greenhouse gases and other substances (what is one of the conditions of eligibility for co-financing under the Agreement). Given the large number of projects selected for co-financing in 2012, it was initially planned to involve the Proceeds from the Agreement in the third call for proposals.

Ranking list of the projects initially eligible for co-financing from the Climate Account (before the negotiations of the co-financing conditions) under the abovementioned call for proposals was approved by the Management Board of the NFEPWM on the 25.01.2012.

The original amount of the allocation of the third call for proposals was not enough to fund all the projects that were positively evaluated. The ranking list of projects initially eligible for co-financing was divided into basic and reserve list.

On 18.04.2012 the Management Board of the NFEPWM decided to extend the allocation for the third call for proposals with the funds from other AAU agreements and introduced provisions in the rules of the third call to adapt the requirements contained in the Agreement of 03.10.2011 with IBRD acting as a trustee of Carbon Fund for Europe (Window 2), which made it possible to use the funds received under the said Agreement.

As a result, one project under the third call was initially selected for co-financing from the funds of the Agreement.

Fourth call for proposals

In order to use the full received amount under the Agreements signed with the IBRD, on 26.04.2012 the fourth call was announced under the GIS priority programme “Energy management in public utility buildings”.

Applications for co-financing could be submitted from 18.05.2012 to 31.05.2012. The amount of funds allocated to co-financing of projects in the form of grants, including the funds in the Climate Account was PLN 155 mln.

99 applications were received under the call for a total co-financing amount in the form of grants for a total amount of PLN 122,1 million.

On 5th September 2012, the Management Board of the NFEPWM approved the ranking list of projects initially eligible for co-financing under the fourth call. The ranking list consisted of 80 projects. The amount of requested grant amounted to PLN 98,214,555.22.

Of the 80 projects included in the list of initially eligible projects, four projects were pre-selected for co-financing under the Agreement. Other projects were identified for co-financing from other agreements with IBRD.

By the 31.12.2012 the process of negotiating the terms of co-financing for these projects has not been completed.

3. Description of the Projects that received co-financing from the funds of the Climate Account.

In the period covered by this Report, no decision on the allocation of projects to be financed with funds awarded under this Agreement, that is why it is not possible to present more detailed information on the description of the projects. Such information will be presented in next Greening Performance Reports.
4. Financial performance of Projects

No co-financing agreement for the funds arising from the Agreement was signed in the period covered by the Report, that is why detailed information on the financial implementation of the projects will be provided in future Greening Performance Reports.

4.1 Cost of the projects

No agreement on the co-financing with funds resulting from the Agreement was signed in the period covered by the Report, that is why detailed information on the financial implementation of the projects will be provided in next Greening Performance Reports.

4.2. Transfer of Proceeds from the sale of AAUs to Beneficiaries

Given the fact that until 31.12.2012 no co-financing agreement for the funds arising from the Agreement was signed, no payments to the Beneficiaries were made.

4.3. Funds returned, unused or used contrary to the terms of co-financing agreements

In the reporting period there was no evidence that funds were spent contrary to the terms of the Greening Plan.

4.4. Use of proceeds for administrative purposes

Within the amount of 5% of the Proceeds received, which can be used to cover the costs of implementing the Green Investment Scheme as at 31.12.2012 no funds for technical assistance were spent.

5. Greening Effects

5.1 Planned Greening Effect

Under the terms of the Agreement, the Greening Effect of the implemented Projects should not exceed the level of 1:70 for each Greening Project and for the entire Greening Programme.

In view of the fact that during this period there was no decision on the allocation of projects to be financed under the Agreement, it is not possible to provide more detailed information on their planned greening effect. Detailed information will be presented in Greening Performance Report for the next Reporting Period.

5.2. Achieved Greening Effect

The achieved environmental effect of the projects will be confirmed after their completion, after completion of the monitoring of the full calendar year (January-December). Beneficiaries are required to prove to the National Fund the achieved environmental effect by providing verified reports prepared in accordance with "Greening Effect Estimation Method" developed by the National Fund. In the case of Greening Projects whose implementation ends during the calendar year, the partial data is collected for the given year (i.e. for the period from the day of completion to the last day of the calendar year).

In 2012, no Greening Project was completed. Therefore, it is not possible to provide information on the achieved environmental effect.
6. Compliance with environmental requirements

As regards the activities concerning thermal modernisation of existing buildings, the most important environmental requirement is protection of species of birds and bats. Therefore, the instructions concerning their protection were annexed to the Priority Programme.

All Beneficiaries were obliged to abide by the instructions during the implementation of projects.

Under the terms of the Agreement, the Beneficiaries are also required to comply with the provisions of the Environmental Management Framework for Polish regulations and IBRD requirements for environmental impact assessments. The Framework determines the categories of projects dependent on the expected impact on the environment, and so the category C refers to a very low impact, while category B to low to moderate impact.

In case of fourth call of proposals, the Environmental Management Framework formed an Annex to the Rules of the competition. All applicants submitted a declaration on the classification of the tasks involved in a project as classified by the Environmental Management Framework.

If the conduct of the environmental impact assessment was not required by Polish law, and the Project was classified in category B with the expected low and moderate impact (below the threshold set out in Annex 2 of the Directive on Environmental Impact Assessment), the applicants were required to submit the Checklist of the Environmental Management Plan at least in relation to the tasks for which building permits had been obtained or applications for a building permit had been submitted.

For tasks in category B with a moderate impact and subject to the provisions of Annex 2 of the Directive on Environmental Impact Assessment, one should submit a full Environmental Management Plan in accordance with the requirements of the Environmental Management Framework.

In the case of projects planned to be allocated under the third call for proposals, works were launched to supplement the Rules of the competition by introducing provisions of compliance with the provisions of the Environmental Management Framework.

7. Main Activities of the National Operator

GIS implementation issues addressed by the Operator

By the end of 2012, the obligations of the Agreement were implemented according to the schedule.

The main threat to the disbursement of funds under this Agreement is the reduction in the value of co-financing upon settlement of the tenders for selection of contractors or settlement of works in amounts lower than envisaged at the time of signing the project co-financing agreement. The National Fund will monitor the status of the use of funds and possibly allocate released funds for projects to be selected in the subsequent calls for proposals.

In the course of work related to the implementation of the Agreement in question, inconsistency was identified in relation to deadlines for providing the Buyer with Greening Performance Reports Plan and Final Financial Reports. In the case of the Final Financial Report, the Greening Plan provisions are inconsistent in:

- point 38 – the deadline for the submission of audited Final Report to the Buyer is 150 calendar days after the end of the monitoring period;
- point 47 – the deadline for the submission of each audited Financial Report to the Buyer (including the relevant Final Report) is 180 calendar days after the end of the Reporting Period.

---

1 As defined in point 1.1. of the Agreement the monitoring period is the period calculated from the first day on which the Buyer will pay the Contract Price to 30.06.2016.
In the case of the Final Greening Performance Report, the Greening Plan provisions are inconsistent in:

- point 11 - the deadline for the submission of the Final Report to the Buyer is 150 calendar days after the end of the monitoring period.
- point 47 - the deadline for the submission of each verified Greening Performance Report to the Buyer (including the relevant Final Report) is 180 calendar days after the end of the Reporting Period.

At the same time point 32 of the Greening Plan and points 23 and 24 of the Monitoring, Reporting and Verifying Instruction (IMRW) have provisions that may raise doubts as to their interpretation. Therefore, the National Fund is proposing to establish the following deadlines for submission of the Reports:

<table>
<thead>
<tr>
<th>Report</th>
<th>Preparation and submission to the auditor/verifier (calendar days after the end of Reporting Period)</th>
<th>Submission of audited/verified Report to the Buyer (calendar days after the end of Reporting Period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Financial Report</td>
<td>100 days</td>
<td>180 days</td>
</tr>
<tr>
<td>Final Financial Report</td>
<td>100 days</td>
<td>180 days</td>
</tr>
<tr>
<td>Annual Greening Performance Report</td>
<td>150 days</td>
<td>180 days</td>
</tr>
<tr>
<td>Final Greening Performance Report</td>
<td>150 days</td>
<td>180 days</td>
</tr>
</tbody>
</table>

Date and signature of the persons who drew up the Report:

[Signature]

Date and signature of the persons who accepted the Report:

[Signature]

Date and signature of the persons who approved the Report:

[Signature]